THE ADMINISTRATION'S 1982 NATIONAL URBAN POLICY REPORT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

SECOND SESSION

PART 2

APPENDIX

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
12-349 O WASHINGTON : 1983

J841-11

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

HOUSE OF REPRESENTATIVES	SENATE
HENRY S. REUSS, Wisconsin, *Chairman*	ROGER W. JEPSEN, Iowa, *Vice Chairman*
RICHARD BOLLING, Missouri	WILLIAM V. ROTH, JR., Delaware
LEE H. HAMILTON, Indiana	JAMES ABDNOR, South Dakota
GILLIS W. LONG, Louisiana	STEVEN D. SYMMS, Idaho
PARREN J. MITCHELL, Maryland	PAULA HAWKINS, Florida
FREDERICK W. RICHMOND, New York	MACK MATTINGLY, Georgia
CLARENCE J. BROWN, Ohio	LLOYD BENTSEN, Texas
MARGARET M. HECKLER, Massachusetts	WILLIAM PROXMIRE, Wisconsin
JOHN H. ROUSSELOT, California	EDWARD M. KENNEDY, Massachusetts
CHALMERS P. WYLIE, Ohio	PAUL S. SARBANES, Maryland

JAMES K. GALBRAITH, *Executive Director*
BRUCE R. BARTLETT, *Deputy Director*

H-485

CONTENTS

Page

Draft of The National Urban Policy Report 1

Background information on Santa Monica's development programs 164

Paper entitled "The Impact of Reductions in Federal Aid to New Jersey," prepared by the Center for State Politics and Public Policy, Eagleton Institute for Politics, Rutgers University 500

Statement of Jim Harrison, executive director, Committee of Urban Program Universities, Washington, D.C 552

Paper entitled "Urban and Economic Adjustment to the Post-Industrial Era," by Donald A. Hicks, political economy program, University of Texas at Dallas 559

Article entitled "The Desperate Plight of the Underclass," by George Cabot Lodge and William R. Glass, from the Harvard Business Review, v. 60, July–August 1982 595

Letter to Representative Reuss from Allan W. Ostar, president, American Association of State Colleges and Universities, Washington, D.C., dated August 17, 1982, regarding the hearings on the administration's National Urban Policy Report 606

Statement of James M. Howell, senior vice president and chief economist, the First National Bank of Boston 609

Statement of David B. Walker, assistant director, Advisory Commission on Intergovernmental Relations, Washington, D.C 617

DRAFT

5/7/82

THE NATIONAL URBAN POLICY: AN OVERVIEW

With three-quarters of all Americans living in urban places, it is self-evident that the condition of our cities and of urban life is important to our national well being. The basic premise of the Administration's urban policy is that urban areas constitute a valuable resource. They are centers of socially productive activities, of culture, of education, of recreation and entertainment; they are places where people live, work, grow, learn, and relax; and they represent the culmination of enormous human and financial investments over many years. Cities are the crown jewels of a civilization. It is, therefore, in the national interest to enable cities and their citizens to achieve their full potential and to adapt effectively to change. The Reagan Administration is committed to this outcome.

Earlier approaches to urban problems consisted primarily of Federal Government actions aimed at city governments: giving money to cities, directly and indirectly, with more or fewer strings attached. Some of these programs have been effective, but many others have proven to be ineffective and sometimes even counterproductive, despite their good intentions. The result of these prior efforts has been excessive dependence of city governments and city dwellers on the Federal Government, with a concommitant loss of local control and a loss of influence over their destinies. In the long run people have suffered and the Nation as a whole has been weakened, because of programs that proved misguided.

The Reagan Administration is continuing those programs that have been successful in improving people's lives in urban areas. At the same time, it is making and proposing major changes to assure greater efficiency, effectiveness, and equity in order that people get fair value in exchange for their hard-earned tax dollars.

The most obvious and direct improvement in people's daily lives is the dramatic reduction in the inflation rate, which means that a family earning

$12,300 annually has $1,000 more to spend than it would have had if the high inflation rate in effect when President Reagan took office had been permitted to continue. Deregulation, in terms of freedom from Federal mandates, has saved states and cities billions of dollars; in mass transit alone the figure is two billion dollars. Housing vouchers have been proposed to the Congress to expand freedom of choice for families receiving housing assistance and a new program has been offered to rehabilitate existing housing, a measure that is of particular benefit to older cities. Enforcement of fair housing laws, a particular problem in urban areas, has been successfully carried to the U.S. Supreme Court. The Urban Development Action Grant program has been streamlined to accentuate economic development. Accelerated cost recovery under the new tax act, and the leasing provisions of that act, benefit older plants and housing. New block grants permit states to target funds for health and human services to the neediest places; based on past experience, 80 to 90 percent will go to urban areas. The Administration's new job training program is aimed at preparing welfare recipients and disadvantaged youths for private-sector jobs, and it provides automatic funding for large jurisdictions. Sensible reforms of the wage laws have been proposed that will reduce construction costs in both urban and rural areas, while workers in cities are being protected from exploitation by Federal raids on sweatshops. Expenditures for waste treatment have been focused on projects to clean up polluted water rather than to extend sewer systems that promote urban sprawl and thereby sap the strength of center cities.

Improving the Quality of Life

The overall goal of the urban policy articulated by this Administration, broadly stated, is to improve the quality of people's lives in urban communities. Clearly there can be no single, nationally imposed approach to achieving this objective, as there is great diversity among and within urban areas. Some places are boom towns, trying to cope with explosive growth. Others, which perhaps once were boom towns, are adjusting painfully to a loss of jobs and people, and are experiencing social and physical deterioration. Still others are pleasant and thriving communities, with no discernible problems. Useful generalizations about the condition of cities even within the same region of the country cannot be drawn with any validity. Clearly, therefore, different approaches tailored by and for different localities are necessary. The Administration will encourage states and localities to exercise leadership in identifying local needs, determining what, if any, government action is appropriate, establishing priorities among those needs, and acting on them. Responsibility for the success of local institutions, both private and public, must rest primarily with those institutions.

The most basic responsibility of the Federal Government is to provide and maintain the framework within which our free economic system can flourish to the benefit of all: protecting individual rights, enforcing contracts, and preserving the value of currency. The background for the Administration's urban policy is the economic recovery program--comprised of tax cuts, budget cu regulatory relief, and monetary restraint--which seeks to restore economic vitality to American industry and to create productive jobs for workers. Inasmuch as the U.S. economy is predominantly an urban one, all urban areas--an the people living there--will benefit from a healthier national economy that leads to an adequate local tax base.

This statement of the Administration's national urban policy addresses long-neglected fundamentals: the role of government in society, and the proper responsibilities of the different levels of government under federalism. It goes on to discuss how local leadership can increase the self-reliance of cities, and it concludes with a summary of the basic principles that will guide the Administration's urban policy.

Government and Society

America is a pluralistic society with many diverse institutions that have evolved in response to the specific needs and character of the American people. However, rather than allowing and encouraging these many institutions to help address our problems, for too long we have acted as though society and government are one and the same, as though only government can solve problems, and as though government is the only institution the American people have for expressing collective choices and taking collective actions.

In fact, there are many institutions which perform this latter function, and government -- Federal, state, and local -- is only one actor. Private groups and associations of all sorts, including civic and neighborhood associations, religious institutions, businesses, fraternal organizations, ethnic associations, unions, philanthropic organizations, and professional bodies, also serve in this capacity. Even the local Little League organizes individual efforts for the good of the community. In addition to government and these private organizations, the family is an important but under-appreciated societal institution: one must not lose sight of the fact that the family is the original department of health, education, welfare, housing, and human services.

This Administration recognizes first and foremost that each of these institutions shapes and affects our cities. It is not the command decisions of government, but the myriad decisions of families, citizen groups, businesses, and associations, each in pursuit of their individual goals, that primarily determine the patterns of urban development and the nature and quality of urban life. Government actions must not overwhelm these institutions and diminish their importance, nor should government attempt to dictate their goals or actions; their diversity and autonomy constitute continuing sources of strength and creativity which assure our Nation's ability to adapt, evolve, and progress.

It follows that a truly comprehensive urban policy that addresses the real needs of city dwellers must be more than just the Federal Government's urban policy. It must also involve a broad societal commitment to strengthening these other institutions and allowing them to play their proper and essential roles in improving urban life.

The problem of the growth of government intervention into the lives of individuals and the affairs of businesses and other institutions must therefore be addressed. This intervention, carried to an excess, has reduced the reliance of individuals on themselves, their families, and their communities. In particular, many poor households have become virtual wards of government agencies. This is sometimes necessary to maintain the dignity and health of the truly helpless; however, too often the existing, well-meaning welfare system undermines personal ambitions for self-betterment. Similarly, excessive reliance on the government to provide jobs, housing, and educational opportunities slows down the advancement of individuals and their assimilation into the economic and social mainstream.

The so-called urban underclass is a particular victim of such policies. Programs which prolong dependence and tend to fragment the family should be scaled back, but not so far as to compromise their original intent of providing for the truly needy. Moreover, Federally-assisted housing and other programs whose unintended effect is to trap the poor in their current locations should be changed so that individuals are not inhibited unduly from seeking better opportunities elsewhere.

Responsibilities Under Federalism

Federalism is the fundamental principle which establishes efficient, effective, and equitable working relationships among the different levels of gov ment and the responsibilities of each. Influencing this Administration's view of federalism is the basic precept of democratic accountability, namely, that those who spend money should be required to raise it. Also shaping the view of federalism is the recognition that some "public goods" (that is, functions that cannot be provided by the marketplace), such as police protection and street repair, are purely local in scope and must be the responsibility of local governments, while others, such as national defense, are the proper responsibility of the national government.

The Administration has established principles to clarify the responsibilities of the various levels of government and of the private sector for dealing with issues that are usually considered to be urban in nature. These include problems that are people oriented, such as education, health, unemployment, poverty, discrimination, and crime; concerns that are place oriented, such as economic vitality, condition of the infrastructure, fiscal soundness, housing conditions, and public transportation; and problems that transcend the boundaries of a single political unit, such as air and water quality. These issues affect nearly all groups of citizens, whether in rural towns or major metropolitan areas. The principles of federalism are the same in all cases, although the importance of particular concerns will differ greatly from place to place.

The fiscal well-being of cities depends first and foremost on their ability to perform a useful role in their regional economy, and secondly on their state governments. State constitutions and laws determine the conditions under which local governments operate -- boundaries, annexation procedures, taxing authority, borrowing limits, land use powers -- and therefore states can redress the problems that are caused or exacerbated by these constraints. For example, they can give their cities direct aid, or access to adequate revenues by granting them authority to levy sufficient taxes. In those parts of the country where historic, local-government boundaries may no longer be appropriate, either because they break up natural metropolitan units or because they ignore the basic, neighborhood building-blocks of urban society, the states generally have the power to alter those organizational arrangements by allowing the creation of more viable institutions for local governance -- regional or neighborhood in scale -- where necessary.

In some areas, states may want to work together to advance interstate objectives; their efforts need not require a role for the Federal Government, other than removal of any barriers which unnecessarily interfere with that cooperative process.

Transfer of Programs. The Administration will strengthen the role of state and local governments by transferring program and decision-making responsibilities to them, along with tax sources, thereby increasing the accountability of these levels of government. In a careful and gradual transition, the Federal Government will assume full financial responsibility for Medicaid, while more than forty Federal programs will be turned over to the states. These programs include physical programs, involving local transportation and community development, and social programs, involving education, health, social services, and income support (including food stamps) for people who are neither elderly nor disabled. At the same time, certain revenue sources will be turned over -- in whole or in part -- to the states to finance these programs: excise taxes on alcohol, tobacco, gasoline, and telephone service, and the oil windfall-profits tax. As a result, the Federal Government will collect less revenue from the citizenry through these taxes, and states and localities will collect more -- if their citizens so choose. In this way, the democratic process will determine the priorities of state and local expenditures, and provide a safeguard against public expenditures whose costs exceed the collective benefits.

For example, the physical programs such as local transportation and community development, which have very localized benefits, should be carried out and paid for by the states and localities, using their newly turned-back tax resources. Because income-maintenance programs for people who are physically capable of working and of supporting their children should be directly related to local conditions, full responsibility for these programs will be assigned to state and local governments. This will achieve the necessary degree of coordination and integration among income-support programs, job training, education, and work, in the most efficient manner.

Direct Federal support will be continued temporarily for selected functiona areas; however, the way Federal aid is delivered is being streamlined in many cases by eliminating expensive mandates, consolidating categorical programs into block grants, and eliminating rules and regulations that unnecessarily hamper states and localities. For some programs, block-grants to states will provide for a "pass-through" to large cities. Greater local flexibility and greater local control over Federal programs are necessary to permit more effecti local responses to local needs. Only in this way can cities and their residents be assured of lasting benefits.

Enterprise Zones. In recognition of the special problems of distressed cities, the Federal Government will cooperate with state and local governments to designate experimental Enterprise Zones in economically depressed areas of a number of such cities. Jobs for local residents will be created, and economic activity in such areas will be stimulated by a combination of tax relief and reduction of excessive regulatory barriers by the Federal, state, and local governments, and by local-government initiatives to improve the physical and social environments of the areas. The concept behind this proposal is to remove government impediments and thereby to motivate entrepreneurs and stimulate job-creating, economic investments. The Enterprise Zone program can be looked upon as one mechanism to help cities make the transition to changed circumstances. Community Development Block Grants and Urban Development Action Grants, which will be continued and gradually transferred to the states, are also intended to serve that purpose.

Equal Opportunity. Although the special problems of minorities are not specifically urban, cities have traditionally provided the opportunities for members of minorities to advance economically while preserving their distinctive cultural heritage, and cities are home for many members of the largest minority groups. Therefore it is appropriate to consider this issue in the context of urban policy.

This Administration has committed itself to building a Nation free of racism and with full opportunity for all. It is committed to guaranteeing civil rights, to enforcing vigorously the constitutional and statutory safeguards against discrimination, and to ensuring that no one is denied equal treatment and participation in publicly funded programs because of his or her race.

Self-Reliance Under Local Leadership

Greater self-reliance is essential to the long-run good health of our cities. Efficient and responsive local efforts will occur only if cities squarely shoulder the primary responsibility to shape their individual fates.

Strategies for Cities. As a starting point, it should be recalled that urban centers develop because many individuals of diverse backgrounds and talents realize that they are better off if they live and work in close proximity and cooperation with others. Too often we ignore these advantages of urbanization, and focus only on the disadvantages. Cities can capitalize on their latent strengths and comparative advantages, which arise from economies of scale due to high population densities, the presence of natural resources such as harbors and nearby mineral deposits, the availability of human resources, and large investments in physical and social infrastructure. The value of these advantages depends upon and fluctuates with a wide variety of external forces which government cannot control -- technological change (for example, in computers and communications), transportation shifts (for example, from rail to truck), commodity prices, foreign competition, and life-style preferences (for example, downtown big city vs. small-town exurbia). Bearing these in mind, local leaders must think strategically about the future of their area and determine the role that their city will play in the region. They must candidly assess their city's strengths and weaknesses and evaluate the external forces -- both the opportunities and the potential threats -- that affect their locality but are beyond their control. Under local leadership, drawn from all sectors, a city should develop and implement a strategy that will assure its best possible future. A forward-looking approach that facilitates a smooth transition to that future will be more successful than a backward-looking one that attempts a costly and futile reversal of inexorable economic and technological changes -- changes that are the result of free choices exercised by individuals and firms.

The Federal Government will permit the comparative advantages of individual urban areas to assert themselves fully. Unless a clear and direct national purpose is served, the Federal Government will no longer subsidize the creation or expansion of new settlements, nor provide special support (other than disaster relief) for communities built in physically disadvantageous locations such as flood plains, barrier islands, and deserts; similarly, it will gradually disengage itself from paying for such activities as dredging commercial harbors, subsidizing airports, and financing water-supply systems, as all of these actions have the effect of unfairly favoring one city at the expense of another.

City Management. Creative self-reliance is evident in the response of some cities to fiscal constraints. Many local officials have successfully demonstrated that they can assure continued delivery of services to their citizens in a far more cost-effective manner through better management and greater productivity. The techniques they are using include privatization of public services, greater reliance on the free market, letting private institutions perform those activities that are not necessary functions of local governments, encouraging voluntary efforts by corporate and non-profit groups, reforming antiquated civil-service systems, strengthening collective-bargaining processes, and imposing user charges to ration scarce resources.

Neighborhoods. An important local resource that should not be overlooked by local leaders is the city's neighborhoods. Neighborhoods are the basic units of city life, after the family itself. There are numerous instances where the long-term stability of neighborhoods and cities has been enhanced by creative cooperation between neighborhood organizations, the private sector, and local government.

Increased reliance by the city government on decentralized, neighborhood-scale organizations can assure greater responsiveness to local needs and more cost-effective service delivery, while providing the dividend of a stronger social fabric. The Administration will assist local governments in experimenting with the delivery of traditional city services by neighborhood organizations operating under city auspices to see if efficiency, effectiveness, and responsiveness can be improved. The same approaches of contracting and self-reliance that can be used at the municipal level can often be applied at the neighborhood level as well. As residents assume greater responsibility and exercise greater influence over the quality of local living conditions, neighborhoods and cities will become better places in which to live.

Private-Sector Initiatives. The future of any urban area depends upon the actions of both the public and private sectors. Individuals and firms make voluntary decisions to stay or leave, to invest or disinvest, and the magnitude of private-sector resources in the aggregate is many times that of the public sector. In addition, firms and individuals acting within a variety of local organizations provide needed social infrastructure. Therefore, the involvement of the private sector is essential to improve urban areas, and it is necessary to create a climate that offers the proper incentives for private actions.

Partnerships between the public and private sectors can be particularly effective. In order to highlight the ways in which government and the private sector can work together to deal successfully with urban issues, the Administration created the Task Force on Private Sector Initiatives. The Task Force is investigating and will publicize ways in which the private sector can work more effectively with the public sector and neighborhood organizations to make urban areas stronger both socially and economically.

Summary of Guiding Principles

Urban policy evolves continuously during the course of any Administration. The basic principles that will guide this Administration's ongoing formulation of urban policy are briefly summarized here. They provide the context within which decisions will be made on urban-related matters by the various departments and agencies. At their heart is the understanding and conviction that only through such policies can our cities provide to their residents a real opportunity for a better life.

1. It is the responsibility of the national government to provide and maintain the basic framework within which our democratic form of government and free enterprise system can flourish to the benefit of all: the protection of individual rights and equality of opportunity.
2. The private -- that is, non-governmental -- institutions of our society will have a greater opportunity to play their essential roles in promoting the general welfare. It is not the command decisions of government, but

the myriad decisions of families, citizen groups, businesses, and associations, each in pursuit of their individual goals, that primarily determine the patterns of urban development and the nature and quality of urban life.

3. Government intervention is required in the following circumstances: to assure the provision of public goods, such as police protection; where the benefits of an activity would otherwise accrue to one party while the costs would be borne by another; to prevent exploitation where natural monopolies exist; and to help those who cannot help themselves.
4. Government programs whose unintended effect is to undermine personal ambition and prolong unwarranted dependence should be revised so as to avoid these undesirable outcomes and to encourage self and family support, while their intended function of providing for those who cannot help themselves is retained.
5. To assure proper democratic accountability and responsiveness to citizens, government activities should be arranged and paid for by the smallest jurisdiction that encompasses most of the beneficiaries of those activities.
6. Federal Government programs whose benefits are local rather than national will be turned over to the states and localities, along with appropriate revenue sources.
7. Where Federal aid for local functions is continued temporarily, it will be delivered through block grants wherever possible, with minimum Federal regulation and maximum local flexibility.
8. Programs that have regional or interstate benefits can be handled by interstate cooperation and joint ventures of the affected jurisdictions; they do not necessarily require a role for the Federal Government, other than relaxation of any regulations which unnecessarily interfere with local cooperative efforts.

9. The fiscal viability of cities depends first and foremost on their ability to perform a useful role in their regional economy, and secondly on their state governments, which establish boundaries, boundary-change and annexation procedures, taxing authority, debt limits, and the forms and processes of sub-state governance. The Administration will encourage states and localities to take the initiative in identifying local needs, determining what, if any, government action is appropriate, establishing priorities among those needs, and acting on them.

10. Local leaders both inside and outside of government hold the key to developing a strategy for their city that capitalizes on the city's comparative advantages and makes it more self-reliant. The Federal Government will permit the comparative advantages of each city to be asserted fully, and, unless a clear and direct national purpose is served, the Government will not intervene in ways whose ultimate effect is to favor one city over another. However, areas of distressed cities may be recognized as a special case. The Federal Government will help them, for example, by joining state and local governments in designating experimental Enterprise Zones in a number of such cities.

11. Important local resources that should not be overlooked by local leaders and which constitute powerful assets and allies in revitalizing urban areas are the city's neighborhoods and the city's private sector, both corporate and voluntary. The Administration is drawing attention to the vast potential for civic revival offered by these institutions.

Past urban policies attempted to shift responsibility for the fate of cities and many of their citizens to the Federal Government--a responsibility which is well beyond the capability of a national government, as the results have shown. By abandoning the large-scale panaceas of the past and instead focusing on more local solutions in the future, this Administration is pointing the way to new opportunities for cities and city dwellers across the land.

DRAFT:5/4/82

CHAPTER 1

INTRODUCTION

In the two years since the last National Urban Policy Report, the fundamental understanding of what governments can and should do to address urban issues has changed much more profoundly than have urban conditions themselves. This Report is based on our new comprehension of urban problems and urban policy. This introductory chapter sets the background for the Report by discussing briefly the evolutionary process in urban areas and its implications for urban policy. It then appraises the consequences of past urban efforts. Unlike some earlier urban policy reports, this does not present a long list of proposed Federal expenditure programs. Instead, as a true policy document should in times of basic and searching re-examination, it breaks new ground and focuses on long-neglected fundamentals. It also articulates the new and very different national urban policy proposed by the Reagan Administration:

(1) it places the highest priority on economic growth as the most important element of urban policy;

(2) it recognizes non-governmental institutions as primary elements of a healthy urban society;

(3) it seeks to restore a proper balance of responsibilities among the different levels of government within the Federal system; and

(4) it supports innovative local leadership as the Nation's strongest and surest means of guiding cities toward a better future.

DIVERSITY IN URBAN AMERICA

Urban America can no longer be characterized adequately as metropolitan central cities or even as the cities with their suburban rings. In 1980, although nearly 75 percent of the Nation's population lived in urbanized areas, almost 60 percent of the Nation's urban population resided outside the central cities of Standard Metropolitan Statistical Areas (SMSA's), and only 75 percent of the SMSA suburban population was classified as urban. Further, the 1980 census shows that nearly 40 percent of the country's non-metropolitan population resides in areas the census defines as urban. For these reasons, an urban policy addressed only to our big cities or to our largest metropolitan areas will overlook much of what is actually "urban" in our society and thus will fail in its purpose. The need for a broader territorial perspective in a comprehensive urban policy is evident.

The ultimate goal of the national urban policy is to assure a satisfactory quality of life -- in the broadest sense of that term -- in America's urban communities. Clearly there can be no single, nationally-imposed approach to achieving that goal as there is great diversity among and within urban areas. Some places are boom towns, trying to cope with explosive growth. Others, which perhaps once were boom towns, are adjusting painfully to a loss of jobs and people, and are experiencing social and physical deterioration. Still others are pleasant and thriving communities, with few discernible problems. Useful, policy-relevant generalizations about the conditions of urban communities, even within the same region of the country, cannot be drawn with much validity. Therefore, different approaches tailored for -- and hence tailored by -- different localities are necessary.

Perhaps as important as a recognition of diversity is a recognition of the powerful economic forces which have shaped -- and continue to shape -- the evolution of urban America. Technological and other changes in the economy have benefited some cities and created problems for others, but most importantly they have yielded changing opportunities which must be exploited if urban areas are to remain centers of socially productive activities, of culture, of education, of recreation and entertainment.

Urban programs have evolved historically as the political system's response to specific urban problems, or to perceptions of those problems. As the older industrial cities began to lose people and jobs, both to their suburbs and to other parts of the Nation, these concerns have multiplied, and so have the number of programs designed to address them. Some programs have been directed at the places beset by urban decline: urban renewal and community development funds to restore decaying neighborhoods, urban mass transit grants to replace aging buses, subsidized housing construction to replace substandard dwellings. Others, such as public assistance and food stamps, have been addressed to people in need. Whether directed at places or people, all tried to deal with legitimate human concerns and were praiseworthy in their intent. However, for the most part these programs ignored the fundamental factors that cause urban change. Thus, while the expenditure of Federal funds has in some cases provided some short-term symptomatic relief, more often the conditions they sought to correct have re-emerged, as the underlying technological and economic forces have reasserted themselves. Thus, instead of a forward-looking national urban policy, we have had reactive Federal Government programs.

Knowledge of the process of urban development is essential, however, if the reasons for urban growth and decline are to be understood, if the associated costs and benefits are to be identified, and if the appropriate role for government is to be defined. Only then can policies be adopted that preserve the advantages of private urban decision-making while ameliorating its adverse impacts. Policies drafted in ignorance of the process will often fail to achieve their objectives, and may even do more harm than good. Such policies will fail because they assign to governments activities better left to private initiative, adopt ineffective methods for government actions, or involve inappropriate levels of government.

THE EVOLUTION OF URBAN AMERICA

Urban growth in a free society is the result of decisions by many individuals, households, and firms, acting independently, to cluster together in particular places. As the economic centers of a growing Nation, America's cities have been the most visible expression of economic growth and change. Their growth, change, decline and renewal are highly individual patterns which result from the interplay of two critical factors. The first, and most universally powerful, is the match between each city's resources (location, climate, work force, etc.) and the technological demands of different periods of the Nation's economic development. The second is the incremental, but nonetheless significant, influence which public and private leadership can have in using natural advantages effectively, accepting and adapting to change, and exploiting newly rediscovered resources.

The economic forces which have shaped urban America are most easily understood from the perspective of the manufacturing sector -- and the effects changing technology has had on the early urban centers. Nineteenth-century urban growth was closely linked to the industrialization of the American economy. Three reasons explain much of the concentration of industrial activity in cities, all of them related to industrial and transportation technologies. First was the availability of natural resources, especially coal and iron ore. The production of steel, a key ingredient in nineteenth-century industrialization, was located near coal and iron fields or, because these materials are cheaply shipped by water, at sites with good water access to these fields. Location of manufacturing plants for machinery, automobiles, and other products near the steel mills was also sensible. These factors led to the growth of steel-producing centers and the concentration of heavy industry near the coal and ore deposits of the Great Lakes region.

A second cause of urban growth was the reduction in cost that accrues to related activities that locate near each other. A classic example is the garment industry in New York City. This industry is characterized by small firms, frequent design changes, and highly variable levels of production that depend for each firm on how successfully its designs have been received in each season's market for fashion. In such an industry, subcontracting many parts of the final product (in this case, the manufacture of belts, buttons, and decorations required for dresses) becomes the lowest-cost method of production. Not only can specialized subcontractors take advantage of economies of large-scale production that would not be available to the small firms that they serve, but, in addition, by serving many customers that have ups and downs in their business activity at different times, they can avoid inefficient excesses and shortages of capacity. Moreover, given the rapid changes in fashion in this industry, frequent contact is needed between subcontractors and the firms they supply. Thus, the interrelationships among firms provide strong incentives for clustering.

The third and perhaps the most important stimulus to the concentration of late nineteenth-century industrial development in cities was the transportation technology of the time. Railroads and water transportation had become cheap and efficient means for shipping large quantities over long distances. For their economies to be realized, however, large shipments had to be assembled for movement from one region to another. Downtown ports and rail yards served as assembly points for shipments.

Other attributes of nineteenth-century technology led non-manufacturing activities to cluster as well. For urban workers, options for commuting between homes and jobs were limited to travel on foot and by streetcar, limiting residential choice to places not far from work. High-density housing immediately adjacent to urban workplaces became the norm. This residential pattern further reinforced the advantages of the city as an industrial location, since it provided urban firms with excellent access to a labor force. It also spurred the growth of downtown retail trade, since the central business district was the only place easily accessible both by foot and by all streetcar lines. With factories, stores, and households all concentrated in the city, locating in the city was the appropriate choice for business firms that served them, such as banks, as well. The principal dividends from spatial concentration were savings in the number of people, number of machines, and hours of travel time devoted to transportation. These savings, in turn, freed resources for other productive activities.

And so cities grew, as America was transformed from an agriculture to an industrial society. Urban growth emerged not from government policy, but from the choices of people -- families and businesses -- taking advantage of opportunities to better themselves.

Cities have continued to change since World War I, especially in recent years. But now, the "universal" growth that was characteristic of the late nineteenth and early twentieth centuries has become much more selective. Midwestern and Northeastern cities that made up the core of nineteenth-century urban growth lately have been losing population and jobs to their own suburbs and to cities and suburbs in the South and West, although some have made successful transitions to more diversified and healthier economic sectors.

The decline of the manufacturing base of old cities, no less than their earlier growth, reflects the responses to contemporary technology. The composition of the Nation's output of goods and services has shifted away from products with heavy steel content. For the maker of pocket calculators, for example, location near the Great Lakes coal and iron deposits has no particular advantage. The location decision will therefore be made on other grounds. The introduction of assembly lines at the beginning of this century revolutionized manufacturing technology and conferred a large cost advantage on low-density, single-story factories making use of the new technology. Existing plants in the cities became obsolete, and few vacant parcels available in cities were both large enough to accommodate the space requirements of single-story plants and inexpensive enough to compete with suburban alternatives. Long-distance trucking has become steadily more attractive relative to rail and water for all but the heaviest, bulkiest commodities, freeing manufacturers from central city ports and railroad yards to locate freely in suburbs or small towns with no transportation cost penalty.

Similar developments have affected location decisions of households and of businesses other than manufacturing firms. As incomes rose and families could afford better housing, they became dissatisfied with the high densities of the city and chose instead the large-lot, single-family houses that were available at reasonable cost only in the suburbs -- thanks in part to Federal mortgage aid. The introduction of the automobile and the expansion of the highway network -- the latter via Federal programs -- reduced commuting times to the vast suburban regions that were not previously accessible, and made such choices possible; the movement of jobs to the suburbs made the latter even more desirable. As both manufacturing and households left the city, retail and service firms that catered to them had incentives to follow them.

Thus, changing technology allowed manufacturers to reduce their costs, to their own benefit, while simultaneously improving the productivity of the economy and raising the standard of living of the Nation as a whole. Achieving these gains has not been costless, however. Change always has its losers as well as its winners: city workers whose jobs have disappeared, city retailers driven out of business by the relocation of their customers to the suburbs, owners of city property that has lost its value. It is largely in response to the direct and indirect effect of these losses that the Federal Government has been called upon to halt the decline of older cities and to underwrite their revitalization. The effectiveness of these policies has been very limited, however, because the economic forces propelling job dispersal have been so strong that efforts to reverse them have been futile, and indeed dwarfed by the tide they were intended to stem. King Canute vainly commanding the tides to halt comes vividly to mind.

Taking into account the net effect of such policies, it is clear that the existence of losses is not sufficient grounds for intervening to oppose change. The benefits of change -- more efficient production, lower-cost goods, expanded residential choice, a higher standard of living -- are permanent and widespread. The losses are largely transitional costs of local adjustments that might better be addressed by policies that smooth and accelerate rather than hinder the process of change. Progress is built on change, and change on initiative, risk, and loss. The riskless society is found only in the cemetery.

An urban area's effort to maintain its economic base, then, must rely on riding the momentum of change in a manner which uses remaining -- and new -- resources. An illustrative example of positive adaptation to deep-seated changes in economic forces and circumstances is found in New England. The old manufacturing cities of New England seem to be succeeding in attracting the growing high-technology and service industries which require and can afford the well-educated labor force characterizing New England.[1] Beyond that economic foundation, shifting demography, life-styles, and tastes have turned older, close-in residential neighborhoods into resources rather than liabilities. The initiatives of private and public urban leadership can and must play a major role in responding to change.

ENCOURAGING ADAPTATION TO ECONOMIC CHANGE

Too often Federal programs have defined as problems the normal disruptions caused by social and economic changes and hence they sought in vain for "solutions" that do not exist. Too often they failed to take into account the capacity of individuals, firms, and communities to adapt to change and to formulate new and often creative responses for pursuing newly emerging opportunities. The incentives for adaptation are reduced if those that might be affected by change are over-insulated from its consequences: subsidies that try to compensate for long-term economic changes are likely to cause individuals, firms, and communities to believe that adaptation is unnecessary, that the disruption is temporary, and that external assistance is justified and will be forthcoming until the old order is restored. For example, trade-adjustment assistance payments that compensated automobile workers for loss of income due to international competition probably delayed the inevitable adjustments by workers and by the U. S. automobile industry to the production of fuel-efficient small cars. Such benefits reduced the incentives of many workers to re-consider their locational choices or to consider re-training opportunities, even when faced with the reality of declining employment prospects.

The original purpose of social-welfare programs was to provide temporary aid to certain limited categories of individuals who cannot function as self-supporting members of society. There was a broad societal consensus about who should be helped and about the nature and extent of such help. Over the years, however, and due to pressure from single-purpose, special-interest groups, the number of aid programs increased dramatically and access to the programs was expanded far beyond the point that the public now deems reasonable. Many programs have been stretched and distorted to a counterproductive extreme. The resulting subsidies to large numbers of households have often undermined personal ambitions for self betterment. There is both a social loss, when potentially productive individuals become wards of government agencies, and loss for the individuals themselves if they become trapped in a dependence that is passed from generation to generation. No more tragic illustration can be found than the pregnant, unmarried 14-year old who was looking forward eagerly to the independence she would gain upon giving birth; expressing the warped values this pitiful child had acquired, by "independence" she meant that she would be receiving her own welfare check instead of sharing in her mother's.[2]

In a similar vein, many people believe that excessive reliance on the government to provide jobs, housing, and educational opportunities slows down the advancement of minority groups as a whole and their assimilation into the economic and social mainstream.

The so-called urban underclass is a particular victim of such policies. Federal programs which prolong dependence and tend to fragment the family should be scaled back, but not so far as to compromise their original intent of providing for the truly needy.

Some programs that are place-specific, such as subsidized housing, public employment, job training, and public assistance benefits, while helpful to many in need, sometimes have the unintended effect of trapping the poor in their current locations. "Low-income families can't afford to give up the welfare and housing benefits they have in the cities. These alleviate poverty, but they may restrict the mobility of the poor. They may keep them in the city rather than move to the suburbs or the Sun Belt, where the jobs are," said a Census Bureau official.[3]

Such programs should be changed so that individuals are not unduly inhibited from voluntarily seeking and responding to employment opportunities elsewhere. It seems that today only middle-income and upper-income workers are encouraged to migrant to better jobs. Yet moving to get a better job has long been a way of life for many Americans. Indeed, most Americans are descended from immigrants who came seeking economic opportunity and the chance to lead better lives. Even native Americans came to North America as migrants, thousands of years ago, when the grazing grounds of Siberia could no longer support them. Migration continues today as a useful, voluntary, individual tactic for adapting to change. Unfortunately, but understandably, public officials who represent geographic areas from which people are emigrating do not look kindly on this particular method of adaptation, however beneficial it may be for the individuals involved, and for the Nation in the long run.

The ability of State and local governments, and, most importantly, cities to adjust to long-run structural changes in the economy is severely hampered by short-run shifts in the Nation's business cycle. Therefore, stabilizing and revitalizing the national economy is the most important Federal urban policy for the 1980's. Recession reduces the revenues of State and local governments and at the same time increases the demand for public services. When recession is coupled with rapid inflation, the results are even more damaging to the financial health of local governments, particularly those facing a significant, long-term decline in revenues. The latter are more severely affected during such periods and generally make advances in employment and income only during periods of rapid national growth.

In recent years, the national economy has suffered from persistent high inflation, high interest rates, frequent bouts of recession, low rates of savings, increasing competition from abroad, declining rates of capital investment per worker, low productivity, and slow rates of growth in the gross national product.

The economic well-being of all Americans, rich and poor, urban and rural, depends upon the productivity of the American economy. Consistent increases in output per worker throughout American history have provided a high and steadily increasing standard of living among our citizens and increased leisure time in which to enjoy it. Among the most important benefits of productivity growth has been a steady decline in the fraction of Americans living in poverty.

Since the early 1970's, however, productivity growth has not been the vehicle for increased prosperity that it had been in the past. Since 1972, productivity per worker in American private business has increased only one percent per year, less than one-third the rate of growth that prevailed in previous years. During the same time, productivity growth in German industry was nearly four percent and, in Japan, more than five percent. Lagging productivity creates both short-term and long-term problems. In the short term, failure of American industries to keep pace with foreign competition means loss of markets, excess capacity, and unemployment in these industries. In the longer term, lagging productivity adversely affects living standards of all Americans. If stagnant domestic industries are protected against foreign competitors with tariffs and restrictions on imports, prices paid by American consumers will be kept artificially high. If these industries are not protected, lower wages will be required to remain competitive. Only greater productivity can sustain and enhance prosperity.

In its Economic Recovery Program, the Administration introduced tax cuts and incentives to increase savings and investment, and it is pursuing measures to stabilize the growth of the money supply. Combined with reductions in Federal expenditures and in unnecessary regulations, these measures will reduce the size and intrusiveness of the public sector, leaving more resources in the private sector for productive investment, and thereby creating new jobs and higher real incomes.

As part of its efforts to promote economic recovery, the Reagan Administration is reducing the excessive number of regulations that impose costs far outweighing their benefits upon both private-sector firms and State and local governments. Regulation may well be justified when firms impose costs on others -- for example, when a firm discharges its untreated wastes into a stream, polluting the receiving waters for downstream users who rely on them for drinking water or recreation. But while the Administration accepts the necessity and desirability of many types of regulations, it questions the proliferation of regulations by the Federal Government and the indefensibility of certain standards in light of the costs that they impose on firms and State and local governments; often, regulations have been pursued to the exclusion of other worthy public purposes. Increasingly, it is being recognized by all parties that the benefits of regulation are not costless. For example, in 1977 it was estimated that compliance with Federal regulations cost private firms, and hence consumers, over 100 billion dollars annually.[4] As a Nation, we must decide how much we wish to pay to achieve the benefits provided by any given regulation.

While the Federal Government concentrates on establishing the conditions for increasing rates of growth in the gross national product, State and local governments will find it is in their interests to concentrate on increasing their attractiveness to potential investors, residents, and visitors. In doing so, they are most likely to succeed if they recognize their changing comparative advantages and adapt to the changes that are occurring in regional, national, and international economies rather than trying to work against them.

Inevitably, higher rates of national economic growth will have different consequences for each of the Nation's communities. As some industries grow and other contract in response to changing national and international market conditions and opportunities, the communities in which they are located will experience sometimes unpredictable expansions and contractions in jobs, population, and tax bases. Some types of temporary Federal assistance to areas undergoing particularly rapid social and economic change may be justified, for example, assistance to correct transitory imperfections in local capital-investment markets. Older areas frequently have substantial parcels of land that are vacant or occupied by deteriorated structures, and yet the land is well located for a variety of economic activities and well served by existing street, water, sewer, transportation, and communication facilities. In such areas, it is generally the case that a firm will be reluctant to invest despite these assets, unless it has reasonable confidence that other firms are also willing to do so. When each firm is reluctant to be the first to take the risk, otherwise viable investments may be foregone unless government intervenes to start the process.

To demonstrate the viability of investments in certain depressed urban areas, the Federal Government will cooperate with State and local governments to designate experimental Enterprise Zones, providing incentives in the form of tax savings and the removal of regulatory barriers to firms that choose to invest or expand there. Economic activity and job creation in such zones will be stimulated by a combination of tax relief, reduction of excessive regulatory barriers, and initiatives to improve the physical and social services and environments of the areas. The fundamental idea behind the Enterprise Zone program is to eliminate government barriers to job-creating entrepreneurial efforts. This program is discussed further in Chapter 4.

For similar reasons the Reagan Administration will continue to promote Urban Development Action Grants (UDAG). Last year the program was modified to emphasize economic development, and to place priority on commercial, industrial and mixed use projects that will help distressed urban areas diversify their economic bases and adjust to long-term structural changes.

UDAG funds can be used flexibly for the construction of infrastructure or for financial assistance to firms, as long as the Federal funds leverage substantial private funds. In other words, each project must be sufficiently attractive to private investors that they are willing to make firm commitments of private dollars as a condition for receiving Federal assistance. Such projects are also likely to demonstrate the economic viability of distressed areas and attract additional investment. Federal assistance of this sort is designed to help communities that are losing jobs to assume new economic functions compatible with the changes occurring in the larger economic order of which the community is a part. It speeds rather than slows social and economic adjustment in a manner consistent with the interests of the community and the Nation as a whole.

RE-APPRAISING THE ROLE OF GOVERNMENT

Suffering from a lack of clear and consistent criteria defining the role of government in a free society, past urban policies have heightened the tendency to look to government to solve problems. Increasingly, public policy has equated society and government; it has assumed that only government can address society's concerns, and that government is the only institution the American people have for expressing collective choices and taking collective actions. In fact, there are many institutions which perform this function, and government -- Federal, State, and local -- is only one actor. Private groups and associations of all sorts also serve in this capacity, including civic and neighborhood associations, religious institutions, businesses, fraternal societies, ethnic associations, unions, philanthropic organizations, professional bodies -- and the original department of health, education, welfare, housing, and human services: the family.

To illustrate this concept one need look no further than volunteer fire departments -- which comprise almost 90 percent of all fire departments in the U.S., and religious charities that care for orphans, the sick, the poor, and the handicapped. It is also instructive to look outside our culture, at other modern industrial nations, to see how different institutions are utilized in different lands to address common, universal, human needs. Take the case of care for the elderly in Japan. There the government has very limited responsibility with respect to pensions, nursing homes, senior citizen centers, housing for the aged, and home care; it is almost entirely the responsibility of the younger members of a family to care for the older ones. In fact, the Japanese approach is not alien to the U.S. Numerous ethnic groups in the U.S. have similar mores and traditions with respect to care for the elderly. Among Greeks, for instance, the family and the church continue to play the dominant role, even after a generation or two of Americanization.

It is useful to consider the meaning of "public" and "private." The word "public" has come to mean governmental, but sometimes this is too narrow and misleading a view. "Public" simply means common to many people. All governments are public, at least in democracies, but not everything public is necessarily governmental. For example, we use the term "publicly-owned" to refer to a corporation that it is owned not by government, but by many separate individuals. In democratic societies, people join together voluntarily -- in a social contract -- and create governments to handle common problems and to satisfy common needs. But they also create many other societal (that is, public) institutions as well, to handle various kinds of special concerns they have in common. And so they form the sorts of "private" organizations mentioned above. All of these can be thought of as public bodies in a substantive sense, that is, engaged in the affairs of the community, even though they are not governmental.

Indeed, the Tenth Amendment to the Constitution suggests this very point:

> "The powers not delegated to the United States by the Constitution nor prohibited by it to the States, are reserved to the States respectively, or to the people." (Emphasis added.)

Attention is usually called to this Amendment for its emphasis on States' rights, but the often overlooked final phrase can be interpreted as recognizing that people have certain powers (not only liberties, which are addressed by the other Amendments in the Bill of Rights) to undertake activities in common other than those undertaken by the United States (that is, the Federal Government) or the State governments.

This emphasizes that government is only one "public" institution in modern industrial societies -- an important one to be sure -- but only one, and one that is rather more limited in its capacity to serve the public interest than we have usually assumed. It is not the command decisions of government but the myriad decisions of families, citizen groups, businesses, and all these various associations, that primarily determine the patterns of urban development and the quality of urban life.

These non-governmental, yet public, institutions will play an important role in restoring an appropriate balance to the American Federal system. As a post-industrial society with a highly complex, mobile population, we have tended to look to government to supply essentially private needs -- to transfer to the government responsibilities traditionally reserved to the family, the church, the neighborhood, or the community. The effect of this transferral has been significant. It has raised and sustained a high level of "public" response to social problems, but it has undercut the perception of the need for and therefore the support for other institutions which can handle these responsibilities. Instead, the response to innumerable local problems has been through a remote national government and, at best, a local or State delivery system serving as agent, not of the community or of those served, but of nationally imposed priorities and values. This has eroded accountability and responsibility and has led to growing hostility to government programs and even to their beneficiaries. The fabric of community -- and its responsibility to its own members -- must be mended, so that non-governmental responses and personal and community self-reliance are again encouraged and sustained.

Government actions must not be permitted to overwhelm these other vital institutions of society, nor diminish their contributions to the Nation's ability to adapt, evolve and progress. These institutions must be strengthened, allowed, and encouraged to play their essential roles in improving urban life.

If the distinction between the responsibility of government and of other institutions is to be re-asserted, what criteria should be used? The history of American urban development has demonstrated that voluntary decisions by individual households and business firms have contributed immensely to individual and societal well-being, but it is nevertheless clear that coercive collective action (that is, government action as distinguished from voluntary collective action) is necessary for certain basic societal needs. Government must play a role in those instances where the private market or the unfettered interplay of individuals and organizations pursuing their legitimate ends fails to produce outcomes consistent with the overall best interests of society. In particular, it is the responsibility of governments:

- to provide and maintain the basic framework within which our free economic system can flourish: protection of individual rights, equality of opportunity, freedom of choice, the rights of property ownership, enforcement of contracts, and the value of currency;

- to assure the provision of public goods, such as national defense and police protection;
- to intervene when the benefits of an activity would otherwise accrue to one party but the costs would be borne by others; for example, when a firm fails to take into account the costs that its air or water pollution imposes on others, government regulation may be called for to induce the firm to "internalize" these costs, that is, to bear the cost of reducing its hazardous emissions;
- to correct market imperfections, for example, when workers or investors are unable to act in response to opportunities;
- to prevent exploitation where natural monopolies exist;
- to help those who cannot help themselves.

It should be recognized that various types of government intervention often generate their own characteristic problems, such as excessive regulation, red tape, delay, lack of accountability, unmanageability, and inefficiency. Government intervention is justified only if it can be carried out in a manner that its likely benefits outweigh its likely cost.

RESTORING BALANCE IN OUR FEDERAL SYSTEM OF GOVERNMENT

Ours is a Federal system of government, comprised of the national, State, and (if we ignore Constitutional precision) local governments, yet we invariably use the term "Federal Government" when we mean the national government. This semantic usage reflects the overwhelming dominance achieved by the national government, and the concommitant diminution of the roles of the other member governments of the Federal system.

Nowhere is this more evident than in urban affairs. The involvement of the Federal Government in many intrinsically local community activities can be traced in part to the perception in the past that some State governments failed to address urban concerns. Ultimately, however, the responsiveness of the national government to pressures for assistance, while immediately satisfying and politically rewarding for some, distracted the cities from bringing to their States those fundamental issues which lay at the heart of many of their problems. The failure to look to the States produced a self-fulfilling prophecy in which States continued, in some instances, to remain unresponsive and thereby to provide further justification for by-passing State governments. Where States increased their activity on behalf of urban areas, it was often to emphasize small city concerns, while direct relations between large cities and the national government continued. This pattern perpetuated the close familiarity of some State governments with less urban areas, and the political estrangement of large urban areas from those States' officials.

State constitutions and laws determine the conditions under which local governments and special districts operate -- boundaries, annexation procedures, taxing authority, borrowing limits, land use powers, and service responsibilities. States have powerful tools for addressing the consequences of economic change, as evidenced by their aggressive use of a wide variety of techniques to pursue economic development objectives for the State as a whole. Many have taken steps to provide special benefits for distressed areas. Through a variety of means they can equalize resource disparities within their boundaries by redefining responsibility for certain functions or providing financial assistance. They can create more regional or more local -- that is, neighborhood -- units of governance. One recognizes, of course, that many of the institutional features of urban problems are the most intractable. Yet, while it is unlikely that many boundary lines of political jurisdictions will be redrawn, other accommodations for taxation and service delivery can be devised whose net effect is to change taxing boundaries (e.g., a commuter tax), to create special-purpose units of government to provide particular services (e.g., a sewage treatment district or a library or transportation district), and to permit establishment of special assessment districts to deal with neighborhood needs.

But these accommodations within a State's political process do not occur automatically; they occur when the State becomes the focus of attention, when its potential for ameliorating problems is understood, and when public leadership directly addresses the needs of urban areas and understands the consequences of inaction for the State as a whole. This process of devising local solutions is undermined when cities perceive that their problems can be solved by Federal grants-in-aid, for the latter reduce the incentive for instituting reforms at home and in the State capitol.

A second major reason why the Federal Government became involved in local community activities, aside from the perception that the States had been unresponsive, is the profound confusion that exists concerning those public goods and services that are paid collectively by taxes rather than by individuals. Take the simple and ubiquitous example of potholes in the streets. It is clear that well-maintained streets that are free of potholes benefit many people and should be paid for by them. But who are they? Who should pay to repair potholes in Chicago, for example? The residents of the particular streets with potholes?

Chicago motorists? All Chicagoans? The people of Illinois? All vehicle owners in the U.S.? All Americans, via Federal income taxes?

Some might argue that all American vehicle owners should pay, so that all will benefit wherever they happen to drive; a New Yorker may drive down a street in Chicago and therefore, to avoid damage to his car by a pothole, he should contribute to the maintenance of that street. Others would argue that all Americans, not only vehicle owners, should be taxed to pay for street repairs because trucks carry food, mail, and other goods from Chicago to recipients all over the country, and all local residents, not only car owners, utilize police cars, fire engines, and ambulances. Still others resort to the following reasoning: all cities have potholes, therefore, potholes are a nationwide problem, hence they are a national problem, and so the Federal Government should pay to fix them.

All these lines of reasoning are seriously flawed. The most compelling argument is that the people of Chicago -- and only they -- should pay for pothole repairs (and possibly only the people in that neighborhood should pay, if it is purely a local, residential street) because they -- and only they -- benefit directly. Recipients of goods trucked from Chicago will pay indirectly because the price of the goods includes the taxes paid by the Chicago manufacturer and trucker, some of which are used to maintain the streets. Visiting motorists also pay indirectly, via their hotel, restaurant, entertainment, and shopping bills.

The basic reason why this is best is that only in this manner can governments be held accountable by their taxpayers. If taxpayers everywhere supply money to every city for all street repairs, where is the fiscal discipline? Why shouldn't every city pave every conceivable street as often as possible, pad its payroll, pay exorbitant prices for asphalt, and operate the service for the convenience of its personnel? As long as someone else -- anonymous and remote -- is paying, who cares? Costs will rise inexorably for all, and no one can be held responsible. But if the direct beneficiaries -- the people of Chicago -- pay for this service, they will be better able to hold their officials accountable. Hence, the two most basic principles of democratic accountability:

1. The smallest jurisdiction that encompasses most of the beneficiaries of a service should be responsible for the service;

2. the government that spends the money should be required to raise it.

These principles apply to all public services. Many, such as police protection, street repairs, water supply, transportation, and other local infrastructure needs, are purely local in scope and must be the responsibility of local governments because the beneficiaries are the local population, while other services, such as national defense, the national highway system, and national parks, are the proper responsibility of the national government because their beneficiaries are all the American people.

The real issue runs deep: responsibility and freedom go hand in hand. As George Bernard Shaw once said, "Liberty means responsibility. That is why most men dread it."

This Administration's national urban policy clarifies the responsibilities of the various levels of government and of the private sector for dealing with issues that are usually considered to be urban in nature. These include concerns that are place oriented, such as economic vitality, condition of the infrastructure, fiscal soundness, housing conditions, and public transportation; problems that are people oriented, such as education, health, employment, poverty, discrimination, and crime; and concerns that transcend the boundaries of a single political unit, such as air and water quality.

The Reagan Administration is proposing a major realignment of Federal, State, and local responsibilities, which will establish efficient, effective, and equitable working relationships among the three levels of government. The realignment will strengthen the role of State and local governments by transferring to them the responsibility for programs whose benefits are local rather than national, along with tax sources, thereby increasing the accountability of these levels of government. Moreover, as the Federal Government collects relatively less revenue from the citizenry, States and localities will be able to collect more, but only if their citizens so choose. In this way, the democratic process will determine the priorities of State and local expenditures, and provide a safeguard against public expenditures whose costs exceed the collective benefits.

Where Federal aid for local functions is continued temporarily, it is the intention of the Administration to combine categorical grants into block grants whenever possible and to give maximum discretion to State and local policy-makers in administering programs. Through this sorting-out process, the Federal system should become less "intergovernmentalized," citizens will know whom to hold accountable for spending their taxes, and the Federal Government should be able to concentrate on those activities that promote national economic growth, thereby increasing the resources available to all levels of government and, most importantly to the Nation's citizens and enterprises.

The restoration of better balance in the Federal system of government is discussed in greater detail in Chapter 3.

SUPPORTING URBAN LEADERSHIP

First and foremost, the fiscal viability of a city, and hence its ability to offer a satisfactory quality of life to its residents, depends upon its performing a productive role in its regional economy. This demands local leadership and initiative, both organized and unorganized, formal and informal, collective and individual, public and private. Regrettably, preoccupation with the national government's programs and policies to address urban problems, that is, over-reliance on the most distant level of government, has obscured the fundamental role played by creative local urban leadership in facing changing economic and social realities, and devising strategies for coping with them. While the national economy is clearly a major environmental factor affecting the fiscal, social and overall health of urban jurisdictions, local leadership is critical in determining whether a city deals strategically with its limitations and its opportunities, waits passively while it is overwhelmed by external forces, or diverts its efforts to lobbying, wheedling, and cajoling the Federal Government -- that is, taxpayers elsewhere -- to make donations to their city.

Local leaders, both inside and outside of government, must develop a strategy for their city and determine the future role that their city will play in the region. To guide their city's destiny, they must objectively assess their city's strengths and weakensses and evaluate the external forces -- both the opportunities and the potential threats -- that affect their locality but are beyond their control. Under local leadership, drawn from all sectors, a city should develop and implement a strategy that will assure its best possible future. A strategy that facilitates gradual adjustment will be more successful than one that attempts a costly and futile reversal of inexorable social, economic, and technological changes that result from free choices exercised by free individuals and firms.

Elected leadership plays a pivotal role in this process. In every community, elected officials make basic choices about fiscal and service-delivery options, about investments in municipal infrastructure, and about urban development. Strong leaders will insist on creating options, examining alternatives and their consequences, and forcing informed decisions. In San Francisco, the mayor made productivity and the high service levels of the city a campaign issue, resulting in a political consensus supporting continuation of many programs desired by its citizens. In San Diego, a pay-as-you-go policy disciplines the capital program for maintenance, improvement, and expansion. Finally, in perhaps no city is the evidence of urban leadership more incontrovertible than in Cleveland, where a newly-elected mayor moved a bankrupt city back into the capital markets little more than a year after the city had defaulted on loans.

Urban leadership is by no means limited to public officials. The private sector, both corporate and voluntary, is a fount of creative leaders and is indispensable to the success of a city's strategy. This is so for two reasons: (1) the magnitude of private investment in a city, in the aggregate, generally dwarfs public-sector investments; (2) leaders from the private sector are usually longer range in their thinking than are elected officials who face elections in two or four years. This is particularly true of business leaders whose firms have large, fixed, and immobile investments, such as utilities, banks, and real estate businesses, as well as leaders of religious, neighborhood, and civic associations.

Constrained by diminishing resources and strict limitations on deficit spending, local governments have faced fiscal discipline for a much longer period than the national government. It is not surprising, then, that many local officials have successfully demonstrated that they can deliver services to their citizens in a far more cost-effective manner through better management and greater productivity. The techniques they are using include privatizing public services, greater reliance on the free market, letting private institutions perform those activities that are not necessary functions of local governments, encouraging voluntary efforts by corporate and non-profit groups, reforming antiquated civil-service systems, improving their financial management practices, and imposing user charges to ration scarce resources.

Many cities are characterized by active civic involvement in community concerns, and others have succeeded economically because of strong entrepreneurial resources. The growing signs of recovery in cities "written off" as recently as five years ago (for example, Boston and Baltimore) must clearly be attributed to such strong public-private cooperation. Farsighted economic planning to adapt to economic change has likewise been a major ingredient in helping cities such as Minneapolis, St. Paul, Pittsburgh, and Cincinnati make incremental and positive adjustments in a changing economy.

Unfortunately, Federal programs, particularly in hard-pressed declining cities, have often had the effect of distorting priorities, drawing local officials into programs which they cannot continue to support with their own funds. The decision at the Federal level to provide a service or benefit dilutes the accountability of service-recipients and taxpayers alike. The question of whether the service is truly needed or desired by those who will pay for it is never directly answered. Many claims of need are for services that individuals and families would have purchased from private providers with their own resources or would have done without. Other claims are for services that religious groups, private charities, and voluntary associations have traditionally provided. One aim of the Administration is to stimulate people to act with greater ingenuity as well as responsibility in responding to the needs of their fellow citizens, by using institutions -- both governmental and private, corporate and voluntary -- for this purpose.

By proposing the return of programs and resources to State and local government, the Reagan Administration expresses its confidence in the democratic process and in the capacity of State and local officials to govern. The return of responsibility for intrinsically local or State functions to those levels of government will give elected officials greater choice in the management of scarce resources and greater control over the destinies of their communities. It is a deliberate effort to introduce increased responsiveness to local needs and making governments more accountable to their taxpayers.

Given the primacy of local decision-making in the well-being of communities, the Federal Government would better serve the long-term interests of cities and city dwellers if it were to permit the comparative advantages of individual urban areas to assert themselves fully, and, unless a clear and direct national purpose is served, if it would not intervene in ways whose ultimate effort is to favor one city over another. Therefore, it should neither subsidize the creation or expansion of new settlements, nor provide special support (other than disaster relief) for communities built in physically disadvantageous locations such as flood plains, barrier islands, and deserts. In all these cases, the costs should be borne locally, not by taxpayers elsewhere. For the same reason the Administratio is seeking gradually to disengage the Federal Government from such activities as dredging commercial harbors, subsidizing airports, and financing water supply systems, as all of these actions have the effect of forcing taxpayers in one community to support those in another. This discourages local responses to local demands for development, and thwarts local initiatives for community advancement by erroneously leading people to believe that civic success is a result of Federal largesse rather than clear thinking and hard work. The availability of such Federal grant programs transformed local officials into Washington lobbyists, downgrading them from bold leaders of self-reliant cities to wily stalkers of Federal funds.

Recognizing the importance of private-sector involvement in urban issues, the Administration has created the Task Force on Private Sector Initiatives. The Task Force is investigating and will publicize ways in which the private sector can work more effectively with the public sector and neighborhood organizations to make urban areas stronger both socially and economically. Where appropriate, Federal departments and agencies will work with the Task Force to assist in the development of innovative, public-private working relationships.

Neighborhoods, too, are a vital resource for urban leadership. Numerous examples demonstrate that the long-term stability of neighborhoods and cities is enhanced by creative cooperation between neighborhood organizations, the private business sector, and local government. The Administration will help local governments experiment with the delivery of traditional city services by neighborhood organizations operating under the auspices of the city government. The same approaches of "contracting out" and self-reliance that can be used at the municipal level can often be applied at the neighborhood level as well. As residents assume greater responsibility and exercise greater influence over the quality of local living conditions, neighborhoods and cities will become better places in which to live.

The role of urban leadership, and its ability to manage strategically and to mobilize allies and resources in the corporate and voluntary private sector, and in the city's neighborhoods, is discussed more fully in Chapter 4.

CONCLUSION

Too often the Federal Government has been called upon to intervene to insulate individuals, businesses, and communities from the consequences of changes brought about by evolving technology, shifting market conditions, and altered social attitudes. In these circumstances, Federal intervention can do more harm than good by slowing the process of individual and collective adjustment to change, by expending scarce public resources to maintain public services at levels of consumption that are no longer sustainable, and by diverting scarce private resources from their most productive uses, thereby weakening the Nation as a whole in the international sphere.

It is the position of this Administration that the Nation's individuals, businesses, and communities will realize greater and longer-lasting benefits if the Federal Government creates the conditions under which all can productively pursue their own interests than if it tries to protect them from the real or alleged consequences of any change to the status quo.

The Administration's national urban policy is to:

(1) revitalize the economy, by cutting taxes and spending, by removing unnecessary regulations, and by maintaining a strong currency;

(2) emphasize the contribution of societal institutions other than government to the well-being of the American public, and define the conditions under which government intervention in private decision-making is justified;

(3) restore better balance in our Federal system of government by clarifying the respective roles of the Federal, State, and local governments; and

(4) encourage local leaders to assume the major responsibility for guiding their city's destiny by pursuing long-term strategies that capitalize most effectively on the city's comparative advantages.

Policies concerning the proper roles and responsibilities of Federal, State, and local governments, and other institutions must be based on an understanding of the circumstances of our communities. The following chapter describes economic, demographic, and fiscal conditions and trends in urban areas. Subsequent chapters focus on the roles and responsibilities of Federal, State, and local governments and neighborhoods in light of these conditions. Illustations show that this national urban policy is a practical one, and completely in accord with recent efforts by State and local governments, firms, neighborhood organizations, nonprofit groups, and other private voluntary efforts to bring creativity and ingenuity to the task of improving the quality of urban life and the well being of urban communities.

REFERENCES

CHAPTER 1

1. For example, see Gallese, Liz Roman, "Maine's Economy Turning Around After 25 Years of High Joblessness," Wall Street Journal, April 22, 1982, p. 31.

2. New York Times story regarding pregnant 14-year old, 1980? 3/80 - 5/81? Find.

3. Quotation by Larry Long, in "Census Figures Show District is Losing its Middle Class," Lawrence Feinberg, The Washington Post, April 27, 1982, p. A-1.

4. Weidenbaum, 1977. (Get Citation)

May 5, 1982

CHAPTER TWO

URBAN CONDITIONS AND TRENDS

This chapter describes fundamental economic and social changes affecting firms, households, and governments in urban areas. It assesses past Federal urban assistance strategies designed in response to these changes, examines the rationale offered to justify those approaches, and presents insights about the changing conditions which suggest that a different approach is called for.

VARIETY OF THE URBAN CONDITION

According to the 1980 Census, almost three-quarters of the Nation's 226.5 million residents live in urbanized areas of 2,500 or more population. One-half live in the Nation's nearly 5,800 incorporated places over 2,500 population, nearly one in three live in the 418 cities over 50,000 population, and little more than one-sixth live in the 56 cities over 250,000 population.[a] There are certain types of concerns commonly associated with urban areas, whatever their size. These are the concerns that arise when people seek mutually acceptable solutions to problems stemming from their desire or need to live or work in close proximity to one another. Some concerns arise when jurisdictions gain or lose population and jobs and consequently experience expanding or contracting tax bases. Other concerns arise when people with low incomes and low job skills are clustered together and seek assistance in securing employment, affordable housing, and sufficient cash and in-kind income to support their households. Still others arise from efforts to maintain or restore the desirability of their jurisdictions as places to live and work by improving the effectiveness of social and political institutions, the adequacy of physical infrastructure, and the quality of environmental, cultural, and recreational amenities. These concerns are characteristic of all urban areas, but depending upon their circumstances, different urban areas find different concerns to be paramount.

Urban areas differ in the intensity as well as in the variety of their concerns and their capacity to deal with them. Obviously, communities that are losing population and jobs, and have declining industries, growing dependent populations, deteriorating infrastructure, and contracting tax bases are more likely to experience severe distress than those with the opposite trends. Two cities, St. Louis and Houston, and the counties in which they are located, illustrate the range of urban diversity.[8] Between 1970 and 1980, the City of St. Louis lost 27 percent of its population. Between 1967 and 1979, St. Louis County lost 28 percent of its manufacturing jobs and three percent of its finance, insurance, and real estate (hereafter referred to as "finance") and selected services jobs (generally the two fastest growing sectors in central cities), for a total loss of 41,700 jobs in all three sectors. In 1979 the city's average annual unemployment rate was 9.3 percent, and the county's per capita income was 88 percent of the national average. In sharp contrast, the City of Houston's population increased by 28 percent between 1970 and 1980. Manufacturing employment increased in Harris County by 74 percent between 1967 and 1979, while its combined finance and selected services sector employment increased by 165 percent, for a total gain of 304,800 jobs in these three sectors. In 1979 the city's average annual unemployment rate was 4.3 percent, and the county's per capita income was 126 percent of the national average (an estimte for the city is unavailable.)

Among the Nation's 57 cities over 250,000 population in 1978 (the number declined to 56 by 1980), 24 cities were determined to be severely distressed as defined by the FY 1982 eligibility criteria of the Urban Development Action Grant (UDAG) program.[a] They are found in all regions: seven in the Northeast, eight in the North Central region, six in the South, and three in the West. For example, New Orleans is a distressed city in the South. Between 1970 and 1980, it lost six percent of its population. Between 1967 and 1979, it lost 33 percent of its manufacturing jobs, while it gained 44 percent more jobs in the finance selected services sectors. All in all, New Orleans experienced a net gain of 17,100 jobs in the three sectors. In 1979 New Orleans' average annual unemployment rate was 6.5 percent and its per capita income was 99 percent of the national average.

Of course, distressed central cities located in declining metropolitan areas offer fewer employment opportunities to their residents than those located in thriving metropolitan areas. Some cities have been doing reasonably well despite losses in population and manufacturing jobs. For example, between 1970 and 1980, Kansas City, Missouri, lost 12 percent of its population, while Indianapolis lost five percent starting from 507,000 and 737,000 respectively. In the period 1967 to 1979, Jackson County (encompassing most of Kansas City, Missouri) lost 15 percent of its manufacturing jobs, but gained 50 percent additional finance and selected services jobs for a total net gain in the three sectors of 25,000 jobs. Marion County (encompassing Indianapolis) lost six percent of its manufacturing jobs and gained 67 percent additional finance and selected services jobs for a total net gain of 37,400 jobs. In 1979, Kansas City's average annual unemployment rate was 5.6 percent and its county's per capita income was 105 percent of the national average, while Indianapolis' unemployment rate was 6.0 percent and its county's per capita income was 111 percent of the national average.

Over time, the proportion of the U.S. population residing in today's distressed jurisdictions has been declining. The 24 severely distressed cities over 250,000 population had a combined population of 26.2 million in 1960, 25.3 million in 1970, and 21.6 million in 1980. Their proportion of the U.S. population declined from 14.6 percent in 1960 to 9.6 percent in 1980. Using the UDAG criteria, 144 of the Nation's 583 central cities (some with populations less than 50,000) and other jurisdictions over 50,000 population can be described as severely distressed. These cities had combined populations of 36.3 million in 1960, 35.0 million in 1970, and 31.0 million in 1980. Their proportion of the U.S. population declined from 20.2 percent in 1960 to 13.7 percent in 1980. More than 70 percent of the residents of the 144 distressed communities live in just 24 of the Nation's largest cities; they comprise 10.3 percent of the Nation's population, as noted above.

While the range of variation in urban conditions among major cities is very wide, the range of variation among communities within the same metropolitan area may be even greater. The Los Angeles metropolitan area has 23 suburbs over 50,000 population. In 1977 Santa Monica's per capita income was 149 percent of the national average, while Compton's was 62 percent.[a] In addition to being two and one-half times higher, Santa Monica's per capita income increased more than three times faster than Compton's between 1969 and 1977. While Alhambra, Monterey, and Whittier had unemployment rates under 3.5 percent, Carson, Los Angeles, and Pomona had unemployment rates over six percent, and Compton had an unemployment rate of 8.8 percent. Over 44 percent of the housing stock in Pasadena was built before 1940 compared to less than two percent in Lakewood and West Covina. Other metropolitan areas display similar diversity within their boundaries.

In sum, the nature of the urban condition generates a common core of concerns, but an infinite variety of problems that are unevenly distributed among and within urban areas. Each unique combination of circumstances calls for a unique response, a national urban policy must be predicated on this fact. As the following sections show, the Nation is undergoing a process of national social and economic adjustment to changing technology and national and international market conditions. Past Federal policies have sometimes inadvertently impeded necessary and sometimes painful adjustments to these changes. It is the aim of this Administration to remove these inadvertent impediments and to restore the primary responsibility for urban concerns to States and their local governments where they can be best addressed. States can tailor their responses to the unique needs of their urban areas and residents and assist them in adapting to change. Creative local leadership can ease the adjustment process.

ECONOMIC TRENDS

Powerful technological, economic, and demographic forces are contributing to major population and job shifts among the Nation's regions and urban areas. When government intervention goes against these forces, the results are often ineffective or even counterproductive. The Reagan Administration intends to pursue policies conducive to long-term national economic growth. It is the responsibility of the Federal Government to establish a healthy national economic environment within which State and local governments can take the initiative in seeking to improve the desirability of their jurisdictions to present and future residents and firms. Some communities will grow while others contract, as cities always have since the first one emerged in Mesopotamia. The Administration intends to help communities anticipate and adjust to change. Many declining areas still have numerous competitive strengths and private sources of renewal. Under this Administration's policies, many areas, while growing slowly relatively to others, will nevertheless be able to improve their absolute performance, as Kansas City and Indianapolis did despite actual declines in population and manufacturing jobs noted in the preceding section.

Impact of Technological Innovations

Innovations in technology, transportation, and communication during the last 30 years have loosened the ties of both manufacturing and service activities to central city locations, as was discussed in the previous chapter. Manufacturing employment shifts have occurred in response to changing technological requirements; regional manufacturing wage, capital investment, and productivity differentials; and competition from international trade.

Once technology made less-developed sites more feasible for production and trade, relative labor costs led to further dispersal. The Southeast had the lowest average hourly earnings of manufacturing production workers in the 1950's and 1960's and the second lowest earnings in the 1970's; as a result of this comparative advantage, it captured one-third of net manufacturing employment growth in the 1950's, two-fifths in the 1960's, and over three-fifths in the 1970's. Similarly, the lower wage demands of nonmetropolitan workers in all parts of the country made them more competitive for standardized manufacturing jobs that were no longer tied to central city locations. Moreover, advances in transportation and communications and changed life-style preferences independently made nonmetropolitan areas and suburbs more attractive to potential residents who could supply much of the workforce and consumer demand for the decentralizing industries.

Despite below-average rates of new capital investment per employee, it appears that sufficient capital investment is occurring in the regions of the older manufacturing belt to maintain the productivity of their contracting high-skilled, high-wage work forces, but they have lost ground relative to the South and West because they have been unable to attract sufficient new plants and firms to replace those which closed or went out of business. No significant differences have been found among the four Census regions in average rates of firm deaths. A study comparing firm birth and death rates in the North (the older manufacturing belt) and the South (the South Atlantic, East South Central, and West South Central regions, as defined by the Bureau of the Census) found that between 1969 and 1974, firm closure rates were actually slightly higher in the South across all sectors, but firm births were also significantly higher in the South for all sectors, averaging 50 percent higher overall. Both the North and the South lost a little over 20 percent of their 1969 job bases as a result of firm closures. However, the North gained back only nine percent of its 1969 job base from firm births and only six percent from firm expansions, while the South gained back 17 percent from firm births and 16 percent from firm expansions. As a result, between 1969 and 1974, the North lost 5.8 percent of its 1969 job base, while the South gained 11.6 percent.[a] Other studies have confirmed that the northern regions are unable to acquire enough enterprises to replace firms that go out of business.[a]

In addition to domestic forces, international technological and market forces have altered the comparative advantage of areas. As international trade has grown, domestic products increasingly compete with imported components and finished products from both developed and developing countries. In 1970, exports and imports were only six percent of the gross national product; by 1980, they were 12 percent. Some areas and industries have suffered in the shortrun from import competition, but others have benefited from exports, and the economy overall benefits when the American consumer can choose among high-quality, low-cost goods.

Manufacturing Employment

Trends in net employment growth show the cumulative power of the new technological, economic, and demographic forces. In brief, the share of national manufacturing employment in the regions of the older manufacturing belt (the New England, Mideast, and Great Lakes regions, as defined by the Bureau of Economic Analysis of the Department of Commerce) fell from almost 70 percent in 1950 to 50 percent in 1980. Manufacturing employment losses in these regions accelerated during economic downturns. In the period 1970-75 encompassing the recession of 1970-1971, the economic upturn of 1971-1974, and the severe recession of 1974-1975, the New England, Mideast, and Great Lakes regions suffered total manufacturing employment losses of nearly 1.2 million jobs. Only 600,000 manufacturing jobs were regained during the 1975-1978 upturn. In the 1978-1980 period, the Great Lakes region again experienced major employment losses, as the automobile industry and its suppliers faced a suddenly weakened demand. In contrast, regions of the South and West as well as the Plains region of the North proved themselves to be relatively immune to national economic downturns and realized appreciable manufacturing gains during the 1970's.

Central cities lost 693,000 manufacturing jobs between 1970 and 1975 and regained only 262,000 manufacturing jobs between 1975 and 1980, for a net loss during the 1970's of 421,000 manufacturing jobs. Ninety-eight percent of this net loss occurred in the central cities of the Nation's 33 largest metropolitan areas (those with over one million population in 1970). In contrast, suburbs and nonmetropolitan areas experienced inconsequential net manufacturing job losses between 1970 and 1975 and strong job gains between 1970 and 1980, for net gains during the decade of 1.6 million manufacturing jobs in the suburbs and 1.0 million in nonmetropolitan areas. However, manufacturing jobs increased at only half the rate for all jobs created in these jurisdictions, reflecting the national shift away from manufacturing jobs during the 1970's.

Service Employment

Nationally, while total employment increased by 28 percent during the 1970's, employment in the finance and selected services sectors increased by 53 percent. Service employment in central cities increased at less than half this rate (22 percent), and their share of total service employment declined from 38 percent in 1970 to 30 percent in 1980. Service employment in the central cities of large metropolitan areas grew by only 15 percent, with the result that they gained sufficient service jobs in the aggregate to offset their losses in the manufacturing, transportation, utility, and wholesale and retail trade sectors, but their overall job growth rate for the decade was nearly zero (0.4 percent). The overall effect of these differential growth rates has been the decentralization of service as well as manufacturing employment. On closer inspection, it appears that wholesale trade, like manufacturing, needs space and access to major highways and other modes of transportation, and only the most specialized forms of retailing do not follow population outmigration. Business services are decentralizing to continue to serve their industrial clients. Professional services show a similar pattern. Even finance, insurance, and real estate activities are being disaggregated; and only services dependent on face-to-face interaction are reserved for centralized locations.

Both suburban and nonmetropolitan areas gained service employment at more than four times the rate of central cities. By 1980, suburbs had one-third more finance and selected service jobs than central cities, while nonmetropolitan areas had 91 percent of the cental cities' total. Suburbs and nonmetropolitan areas gained jobs in both manufacturing and services, but their service jobs increased at a faster rate. As a result, all types of jurisdictions became relatively more dependent on service jobs--central cities, because of lower rates of service employment growth and absolute declines in manufacturing employment, and suburbs and nonmetropolitan areas, because of the more rapid growth of service employment.

Sources of Renewal

It was once believed that large urban areas could spin off standardized production processes and yet maintain their long-run economic vitality because they possessed rich inventories of the social and physical infrastructure conducive to further innovation and the replacement of declining industries. However, large urban areas in older, industrial regions have not maintained stable economic growth; they have not generated industries to replace declining industries or businesses which have moved to lower-cost environments. They possess no monopoly on the professional, technical, and managerial expertise and rich array of business support services supportive of technological innovation and new enterprise development; and in many cases their physical infrastructure has been allowed to decay. High wages, taxes, and operating costs along with congestion and obsolescent facilities have weakened older cities' capacities to attract new industries. Urban centers can no longer count on the advantage of central location to continue their primacy as "incubators of innovation." Now, cities must identify and exploit their unique competitive strengths in an increasingly differentiated economic environment, and in doing so, initiative rests largely with State and local governments in partnership with their private sectors.

The oldest industrial area and the first to suffer from trade and technological obsolescence, the New England region is demonstrating that comparative advantages can be re-established. Since 1975, it has experienced a sizeable net gain of manufacturing jobs and, more recently, has enjoyed unemployment rates well-below the national average. Its nonmetropolitan areas have done especially well, but New England's older metropolitan areas and some of its central cities have also experienced job growth and lowered unemployment rates. For example, the Boston metropolitan area had a net growth of 173,000 jobs between 1975 and 1980 (including a net growth of 35,000 manufacturing jobs). And the City of Boston experienced job growth after 1975 despite a decline in resident population, enjoyed a steady decline in its resident unemployment rate, from 12.8 percent in 1975 to 9.5 percent in 1977 and down to 6.2 percent in 1980. After 25 years of higher-than-average unemployment rates, the State of Maine recently achieved lower-than-average status, and Portland is showing new vitality.[a]

The primary impetus for New England's renewal was entrepreneurial initiative in replacing non-competitive manufacturing and service jobs. These efforts were assisted by New England's long-term assets that had not been sufficiently exploited in past decades--an educated and skilled work force, a relatively low wage structure, and an attractive living environment. The older urban areas of Pittsburgh, Kansas City, Indianapolis, and Minneapolis-St. Paul, among others, have shown similar capacities for diversification and modernization.

As a consequence of these regional and metropolitan population and job shifts, people have been matched with jobs in new locations; firms enjoy lower cost, more efficient production sites; regional employment structures have become increasingly similar; and regional income disparities have narrowed. However, these population and job shifts have imposed costs on some communities and their residents. As obsolete plants have closed under the pressure of domestic and foreign competition, jobs have been lost and individuals and families have had to leave relatives and friends to search for new employment opportunities. Communities losing firms and households have experienced contracting tax bases while trying to meet rising service demands from growing dependent populations and aging infrastructure. Too often in the past, the Federal Government has responded to these temporary symptoms of national economic change with policies and programs intended to halt or slow rather than speed the process of adjustment.

In the light of these powerful national economic and demographic trends, most Federal assistance to influence the location of households and firms has had little measurable effect. Federal economic development programs were created to increase private-sector investment in communities experiencing economic decline. Some forms of assistance were intended to correct presumed imperfections in private credit markets by increasing the availability and reducing the cost of capital to firms locating or expanding in economically-distressed communities. Programs were created to make direct loans or guarantee loans made by private lenders. These programs had the unintended effect of channelling credit to less competitive firms. To receive assistance, most firms had to show evidence of having failed the private market test: they had to have been turned down by private lenders before receiving Federal assistance. The weakest firms qualifying for assistance received the most generous Federal support--direct Federal loans at interest rates slightly above Federal borrowing rates; while somewhat stronger firms (including some nationally known ones) received--from private lenders--loans made less risky by Federal guarantees. In this manner, public and private dollars were diverted from potentially more productive uses in the private sector. (In the case of minority-owned firms, however, Federal loans were made available in an effort to compensate for discriminatory practices by some lenders.)

Other forms of economic development assistance were intended to induce firms to locate or expand in high-cost environments. Federal programs were created to assist local governments with the assembly of land, provision of infrastructure, and related improvements to reduce the costs to firms associated with locational disincentives. These programs substituted Federal for State and local resources. Still other forms of assistance were intended to stabilize firms weakened by foreign trade competition. By focusing public and private funds on firms in weak market positions, these programs also diverted resources from potentially more productive and internationally competitive uses.

The private market is more efficient than Federal program administrators in allocating dollars among alternative uses, and, as noted in Chapter One, Federal intervention is justified only to remedy market imperfections or to help communities adjust to change by pursuing strategies that complement rather than try to halt or reverse fundamental market trends. In this period when some communities are experiencing job losses and contracting tax bases, limited Federal assistance may be justified to attract and retain private investment. But this assistance should complement rather than displace market decision-making processes. This assistance may take the form of targeted tax incentives (such as those to be made available in Urban Enterprise Zones) that are available to any firms choosing to locate in designated areas; targeted discretionary grants (such as Urban Development Action Grants) that leverage private investment without eliminating private market tests of project viability; and technical assistance that disseminates information about cost-effective economic development strategies.

State and local governments have primary responsibility for making their urban areas attractive to private investors. They are most likely to succeed if they form partnerships with their private sectors and plan strategically to enhance their comparative advantages relative to other jurisdictions. The major contribution that the Federal Government can make to local economic vitality is the promotion of sustained economic growth. Such growth will directly increase the economic activity of localities; increase their tax bases so that they can make public investments to attract private investors; and create a climate for long-term investment that can help revitalize declining areas.

ECONOMIC WELL-BEING AND MOBILITY

Federal assistance strategies can inadvertently create barriers to the free movement of individuals and households among jurisdictions in response to changing economic and personal conditions. Interjurisdictional mobility is among the most important national economic adjustment processes. It matches people with jobs in communities with expanding employment opportunities and reduces labor surpluses in communities with contracting employment opportunities, thereby enabling the economy to function more efficiently. It increases the ability of individuals and households to realize their life-style preferences and to accommodate life-cycle changes related to schooling, employment, marriage, divorce, child-rearing, and retirement.

During the 1970's, people generally moved from jurisdictions with contracting job bases to those with growing job bases. Because the U.S. population grew at the slowest rate in recent history--at a rate of 11.4 percent over the decade compared to 12.3 percent in the 1960s and 18.5 percent in the 1950s, net migration played a more prominent role in determining which regions and jurisdictions gained and lost population. Net migration into the South, first noted during the 1960s, continued and accelerated, and in the 1970's, both the South and West gained over 60 percent of their population from net migration compared with only 10 percent in the South and 40 percent in the West in the 1960's.

Strong regional patterns underlay population shifts among metropolitan and nonmetropolitan areas and central cities and suburbs in the 1970s. While the metropolitan areas grew by 10 percent and nonmetropolitan areas by 15 percent between 1970 and 1980, 98 percent of net metropolitan growth and 72 percent of net nonmetropolitan growth occurred in the South and West. Within metropolitan areas, central cities in the Northeast and North Central regions lost about as many residents (3.5 million) as the central cities of the South and West gained. Central city population losses of 10.5 percent in the Northeast were not offset by suburban population gains with the result that Northeastern metropolitan areas lost 806,000 residents. In the North Central region, central city losses of 9.2 percent were offset by suburban gains, so the region's metropolitan areas grew at a modest 2.7 percent, only one-eighth the rate of the South and West.

Despite population losses from economically declining areas over the decade, unemployment rates tended to be higher in jurisdictions experiencing job losses. Not all population groups are equally mobile. In general, younger persons and those with higher skills and education tend to be more mobile than older persons and those with lower occupational skills. Persons with lower occupational skills may be less motivated to move because they face the prospect of unstable, low-paying jobs regardless of the community in which they live. Such persons had the highest unemployment rates, often 10 percent or higher, in the job-contracting areas. Moreover, older persons with strong family and community ties frequently find it difficult to move, especially if they own a home in a community where population declines have weakened housing demand. In addition, some people may be prevented from moving to jurisdictions offering greater opportunities to persons with their skills by zoning and building codes that discourage the construction of moderately-priced single- and multi-family housing and by racial discrimination in housing and job markets.

Workers who choose not to move may initially accept longer periods of unemployment in an attempt to maintain their former wage levels, but over time may find it necessary to make wage concessions in exchange for more stable employment. Although this creates a hardship for those who must accept a somewhat lower standard of living, reduction in prevailing wage levels may ultimately make their jurisdiction more attractive to investors and expand employment opportunities. As noted above, this factor was primarily responsible for the growth of manufacturing in the South and in nonmetropolitan areas.

Some potential workers may elect or be forced to withdraw from the labor force entirely. Such dropouts were increasingly female heads of families (two or more related persons). Unfortunately, most households that consist solely of mothers with young children cannot be expected to be economically viable without support from the fathers of the children. Because of their low rates of participation in the labor force, almost one in three families headed by females in 1980 had an income below the poverty threshold ($8,414 for a non-farm family of four, adjusted for age and sex of the household head, but not adjusted for non-monetary benefits such as food stamps). In fact, poor families headed by females constituted 48 percent of all poor families in 1980, up from an already disproportionate share of 33 percent in 1969. Among families that were persistently poor or lived in areas with high concentrations of poverty, female-headed families were even more prominent. Only families headed by blacks had similarly high rates of annual poverty or persistent poverty, in part because a growing proportion of black families are headed by females.

Because of the growing share in many central cities of families with low rates of participation in the labor force, central city poverty rates (i.e., the percent of central city populations with incomes below the poverty level) increased from 12.7 percent in 1969 to 17.2 percent in 1980. Between 1969 and 1980, nonmetropolitan poverty rates declined from 17.9 percent to 15.4 percent. In other words, poverty rates increased in jurisdictions losing blue-collar and lower-skilled, white collar jobs and decreased in jurisdictions gaining such jobs. In the same period, black poverty rates increased in central cities from 24.3 percent to 32.3 percent, while declining in nonmetropolitan areas from 54.3 percent to 40.6 percent.[a]

Poverty levels and rates during the 1970's increased in all regions except the South, but southern poverty levels and rates continued to exceed those of the other regions. Overall regional poverty rates converged, while differences between central city and suburban poverty rates increased. It is interesting that beginning in the mid-1970's, net migration flows of persons with incomes below the poverty line reversed their historical pattern; the number of poor people migrating out of the South declined while the number migrating into the South from the Northeast and North Central regions remained about the same, with the result that the South gained more poor persons than it lost to other regions.[a] This reversal of long prevailing migration patterns suggests that poor people respond to changes in relative economic opportunities, but somewhat more slowly than the remainder of the population. This suggests that in the long-run, national economic growth has the potential to increase job opportunities for all people in society.

Some Federal assistance has been used to provide income support and social services. Some poor people (e.g., the very young, old, and disabled) are truly needy and require public assistance. Others are poor because they have little education, low job and social skills, and live in jurisdictions where blue-collar and lower-skilled, white-collar jobs are contracting. Experience with welfare assistance programs reveals that some types of assistance can make people more dependent rather than self-reliant. Higher levels of assistance unaccompanied by work requirements tend to reduce labor force participation among those otherwise able to work.[a] Some types of assistance inadvertently encourage poor people to remain in communities with contracting job opportunities, inhibiting their historical tendency to move in response to perceived opportunities. Moreover, some types of welfare assistance inadvertently weaken family structure. The social skills and motivation developed in a stable family can be as important as external economic incentives in escaping the cycle of joblessness and poverty.

The Administration has proposed that responsibility for some income support and many social service programs be devolved to State and local governments. They will have increased discretion to pursue social service and income support policies that increase self-reliance rather than dependence. In particular, they will be able to pursue policies that increase labor force participation rates among those able to work and to provide appropriate forms of supportive assistance.

Federal assistance strategies that concentrate assistance for low-income and unemployed persons in jurisdictions with contracting employment bases may inadvertently reduce beneficial adjustments to changing economic opportunties. To provide job experience and to make up for a deficiency of private sector jobs, past Administrations have provided Federal assistance to State and local governments to create temporary jobs in the public sector. This strategy was counterproductive. By virtue of the formula used for distributing funds, which emphasized rates and duration of unemployment, Federal assistance was concentrated in those jurisdictions offering reduced prospects for long-term employment in the private sector. These employment and training programs have had the inadvertent consequence of reducing labor mobility among jurisdictions, and thereby, the absorption of the unemployed into private-sector employment.

This Administration will not provide Federal assistance to create ephemeral jobs in government. Its principal job-creation strategy is the promotion of permanent new job opportunities in the private sector. Assistance will be made available to support job training firmly based upon the preparation of low-skilled persons for jobs in the private sector. This assistance will be funneled through States so that it can be used for job training in growing employment sectors regardless of their location.

While the primary responsibility for linking workers with jobs rests with the private sector, State and local governments share responsibility for the education and training of local workforces. They determine the quality and responsiveness of public education to the needs of prospective employees and employers. The creation of public-private partnerships to strengthen local educational and training systems constitutes an important component of a local economic development strategy. Skilled and motivated work forces are major inducements that State and local governments can offer to prospective private investors.

HOUSING AVAILABILITY, ADEQUACY AND AFFORDABILITY

The housing market is working efficiently in most jurisdictions to provide a sufficient supply of housing and to remove inadequate housing from the housing stock. During the 1970's, the supply of housing increased most rapidly in the growing regions of the South and West. In almost every location, the supply of owned stock increased more rapidly than rental stock, and in central cities of the Northeast and North Central regions, the supply of rental units actually declined as weakened demand permitted the withdrawal of older, poorer quality units from the inventory.

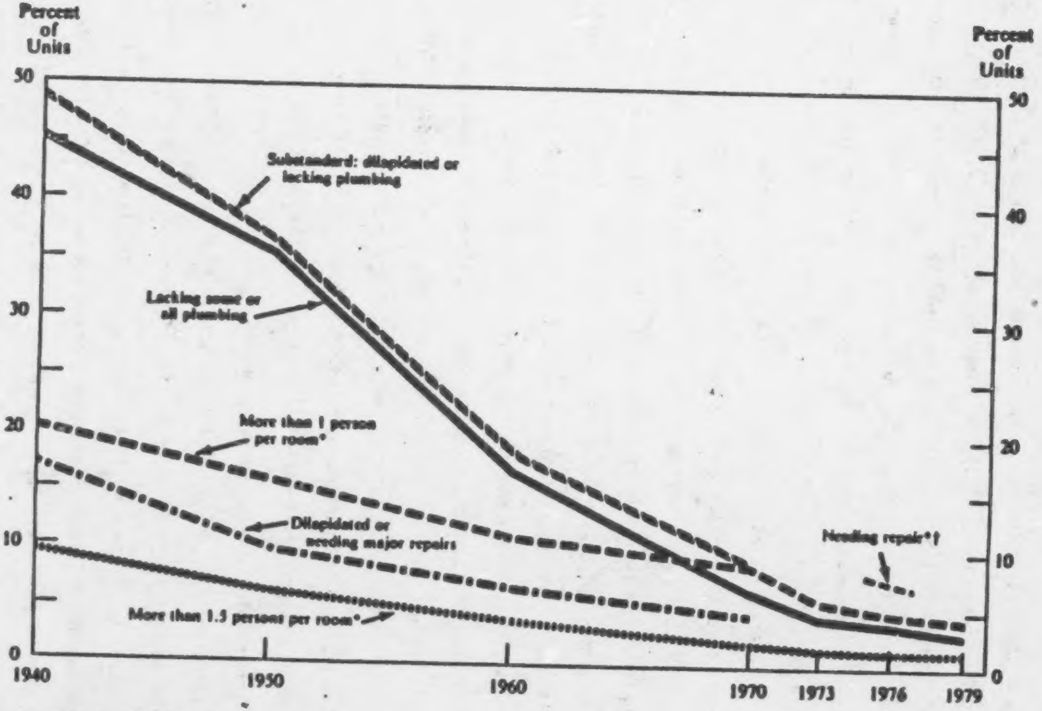
There was geographic variation in the amount and rate of new construction. The number of housing units built during the 1970s was equal to only six percent of the 1970 stock of Northeastern central cities, but was equal to 53 percent of the 1970 stock in Southern suburbs. Within regions, the highest rates of new construction of both owned and rental units occurred in suburbs, where population growth was generally highest. Nonmetropolitan areas also acquired a large proportion of newly constructed owned units, especially in the South and West, where they equalled almost 50 percent of the 1970 stock, while experiencing high loss rates, especially among older, poor quality units, thus contributing to the general upgrading of the stock.[a]

The number of physically inadequate units declined dramatically during the past 40 years, as shown in Figure 2-1. Never has any society been so well housed. Using upgraded standards of housing adequacy, it was estimated that only about four percent of the Nation's housing stock was seriously inadequate in the mid-1970s, with an additional six percent moderately inadequate. This improvement is attributable to rising incomes, not to government programs. People could afford better housing, and the private housing industry provided it.

While problems of housing availability and adequacy decreased, problems of housing affordability escalated in the late 1970's, especially for low-income renters and first-time homebuyers. In 1980, one-third of all renters and three-quarters of renters in the lowest income quartile paid more than 35 percent of their incomes for rent. Housing affordability problems were most severe among central-city renters in the Northeast and West, where over half of all renters and close to 90 percent of all low-income renters paid more than 25 percent of their incomes for rent. First-time homebuyers were

Figure 2-1

Continued Improvement in the Housing Stock



*Percent of occupied units.
†According to the Congressional Budget Office definition.

Sources: U.S. Department of Commerce, Bureau of the Census, and U.S. Department of Housing and Urban Development.

deterred by high mortgage interest and demand-inflated prices of new and existing housing. New homes in 1981 had median sale prices of $70,000 and average sale prices of $85,000, almost three times their level 10 years before, while median family income only doubled during the same period. Despite the tax advantages of homeownership, high interest rates made the average new home unaffordable for all but a small percentage of first-time homebuyers. A reduction in interest rates is necessary to solve this problem.

With the exception of the Section 8 Existing housing program, Federal housing assistance programs were more suited to addressing the problems of housing availability and adequacy than housing affordability. They aimed to increase housing supply through subsidies for new construction and substantial rehabilitation. These programs proved to be extremely expensive and inefficient ways to address the housing problems of this country. A healthy economy with low inflation and moderate interest rates is the best prescription for the ills which plague housing production today. It is the responsibility of the Federal Government to pursue sound fiscal and monetary policies that reduce inflation and lower interest rates. When barriers to the financing of housing production and purchase are removed, private enterprise will be capable of meeting emerging housing needs.

With resources freed from housing production subsidies, the Administration proposes to address the problem of housing affordability for the poor directly. It has proposed to create a modified housing certificate aimed at low-income households who often live in inadequate housing and pay an excessive proportion of their incomes for rent. The program will allow qualifying households to find adequate units in the existing housing market, and these subsidies will be portable-i.e., the recipients will be able to retain them when moving to another housing unit. The program will be designed so that fear of losing housing assistance payments will no longer deter households from moving to other communities offering potentially greater economic opportunities. In this way, individual choice freely exercised in local housing markets would also contribute to the efficient functioning of labor markets.

States and especially local governments can maintain the strength of their housing markets by making their communities desirable so that people will choose to live in them and to invest in and maintain the local housing stock. State and local governments can increase their ability to do so by reducing unnecessary regulations that raise construction costs and that are unresponsive to residents' preferences. It has been estimated that such regulations increase the cost of housing by up to 30 percent.[a] In revising their building codes and land use regulations, State and local officials will be more successful in meeting residents' preferences if they take into account the remarkable changes that have occurred in the size and composition of the Nation's households and the economics of housing. If they continue to employ codes and regulations developed for an earlier generation, they will undoubtedly find that they are encouraging a wasteful overconsumption of both land and living space at the expense of housing affordability for a substantial proportion of their current and potential residents.

In the 1970's, household size continued to decline, while the number of households increased at nearly twice the rate of the population as a whole. The housing supply manifestly kept pace with this growth, as the vacancy rate at the end of the decade was about that at the beginning.[a] The number of single-person households increased to almost one-quarter of all households, as more young people delayed the age of marriage, more elderly people maintained separate households, and high rates of divorce split intact families. Simultaneously, the number of households with children has declined sharply as young families have fewer children or no children at all. Average household size declined from 3.14 in 1970 to 2.72 in 1980 and is projected to decline to 2.41 in 1990. Of the 17 million new households to be formed in the 1980's, it is anticipated that 51 percent will be composed of single persons (many of them elderly) and unrelated individuals, 22 percent will be single-parent families, and only 27 percent will contain married couples, with or without children.[a] Housing standards suited to the larger, child-centered households of the past will not meet the full range of future housing needs, and housing built to satisfy past needs may be priced beyond the financial reach of future homebuyers. Rising energy costs also can be expected to influence decisions regarding housing consumption and location. The demand for smaller units located closer to places of work and accessible to public transportation will probably increase as people try to hold down their housing, energy, and transportation costs.

Changes in household size and composition and the economics of housing may change the relative attractiveness of communities for different types of households. Inner cities and older suburbs can benefit from several of the demographic shifts of the 1980's. With the projected decline in their teenage populations during the 1980's, older cities and suburbs should enjoy a considerable decline in per-capita crime, police and welfare expenses, and some decline in school expenses. More positively, a growing number of households without children will choose the density and variety of city life over the child-centered amenities of outer suburban life. In particular, the sizeable increase of two-earner households without children will be able to benefit from the economic as well as cultural range of more centralized urban areas.

For their part, central cities and older suburbs may find it desirable to lessen regulatory obstacles to residential, commercial, and industrial development of underused land parcels. Many are already converting old warehouses and factories to mixed use combinations of residences, light manufacturing, and services. Equally, older urban areas can ease the economic plight of their elderly homeowners as well as increase the efficiency of housing use by permitting the creation of rental units in some homeowner neighborhoods.

To remain competitive, outlying metropolitan and nonmetropolitan areas increasingly may find it desirable to offer potential residents and businesses a wider range of options. These might include a mixture of residential and commercial areas, a much greater mix of residential densities and tenure, closer links between private development and public transportation and services, and a more modern set of building codes, without violating aesthetic or environmental standards.

FISCAL TRENDS

In the last 20 years, local governments have received an increasing share of their revenues from other levels of government. In 1960, they received a total of $10.1 billion in intergovernmental revenues from Federal and State governments, an amount equal to 14 percent of the general revenues that they raised from their own sources. Less than three percent of these intergovernmental revenues came in the form of direct transfers from the Federal Government. In

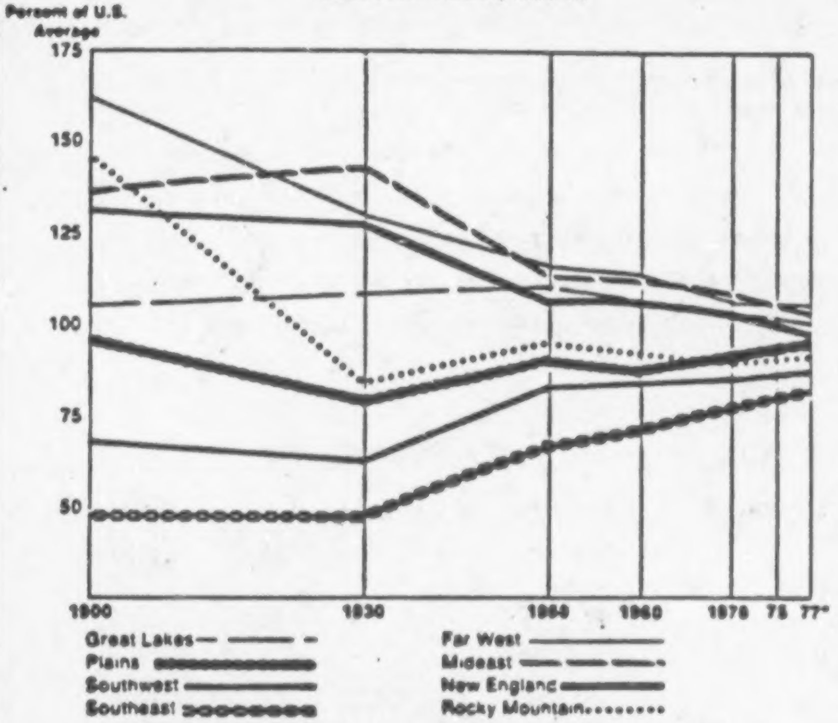
1980, local governments received a total of $102.4 billion in intergovernmental revenues, an amount equal to 79 percent of their own source revenues, and 16 percent of this amount came directly from the Federal Government. An additional 17 percent of this amount reached local governments indirectly in the form of Federal revenue pass-throughs by State governments.[8] After intergovernmental transfers, about 60 percent of total State and local revenues were allocated to local governments. Increasingly, local governments are the providers of services directed and financed by other levels of government.

Most Federal assistance has been earmarked for special purposes. In 1980, only 20 percent of Federal grants-in-aid to State and local governments took the form of general purpose or broad-based grants. The proliferation of Federal grants (ACIR identified 473 in FY 1980) has distorted State and local priorities, induced them to provide services that their taxpayers would have been unwilling to provide if they had to pay the full cost themselves, and injected Federal rules and regulations into local administration.

Despite Federal efforts to allocate resources on the basis of objective indicators of needs, Federal funds have not been consistently targeted to the neediest people and jurisdictions. The political process renders this almost impossible to do. Yet, ironically, it appears that national economic trends may have contributed in greater measure to the equalization of fiscal capacity among the Nation's States and regions than Federal efforts to redistribute income through grant programs. As a result of population and jobs shifts over the last 50 years, disparities in regional incomes have narrowed significantly, as Figure 2-2 graphically illustrates.

Figure 2-2

REGIONAL PER CAPITA INCOME AS A PERCENT OF U.S. AVERAGE, SELECTED YEARS, 1900-75



*The 1977 figure is based upon 1976 population figures (state tax collections, 1977) and 1977 third quarter income estimates (Robert Bretzfelder, *Survey of Current Business*, Washington, DC: U.S. Department of Commerce, January 1978, p. 20)

SOURCE: Table 1, page 11.

Table 2-1 elaborates the more recent trends. It shows that among the eight regions defined by the Bureau of Economic Analysis, in both 1950 and 1980 the Southeast had the lowest and the Far West had the highest per-capita income. But their per-capita incomes converged: the Southeast's from 32 percent below the national average in 1950 to 15 percent below in 1980, and the Far West's from 19 percent above the national average in 1950 to 13 percent above in 1980. State fiscal capacities have also converged. By 1980, 35 States had per-capita incomes no more than 15 percent above or below the national average. Only four States (Alabama, Arkansas, Mississippi, and South Carolina) had per-capita incomes more than 20 percent below the national average. Increasingly, States have a roughly equal ability to pay for the governmental functions that their citizens require.

TABLE 2-1

PER CAPITA INCOME LEVELS RELATIVE TO THE U.S. AVERAGE BY REGION, 1950-1980

Region	1950	1960	1970	1980 1/
U.S. = 100	($1,496)	(2,222)	(3,966)	($9,521)
New England	107	110	108	106
Mideast	117	116	113	107
Great Lakes	111	108	104	103
Plains	95	93	95	98
Southeast	68	73	82	85
Southwest	87	87	89	98
Rocky Mountain	97	94	91	96
Far West	119	118	111	113

1/ Based on preliminary figures.

SOURCE: ACIR, Regional Growth: Historic Perspective, Washington, D.C, June 1980; U.S. Bureau of Economic Analysis, Survey of Current Business, July 1981.

Additional evidence for convergence is provided in Table 2-2, which shows that 1979 median household incomes of metropolitan area residents of the four Census regions differed by no more than seven percentage points from the national average for metropolitan areas. Table 2-2 also shows that there were remarkable disparities in the median incomes of central city and suburban residents within all regions, but these disparities were the most pronounced in the Northeast and North Central regions.

Table 2-2

MEDIAN INCOME FOR HOUSEHOLDS RELATIVE TO NATIONAL MEDIAN INCOME
BY REGION AND TYPE OF JURISDICTION
1979

	National Median Income=100 ($16,533)			
	Metropolitan Areas	Central Cities	Suburbs	Non-Metropolitan Areas
Northeast	103	77	125	99
North Central	114	89	133	90
South	100	88	111	80
West	110	97	120	87
United States	107	87	123	87

Source: US Bureau of the Census. "Money Income of Households in the United States: 1979." Current Population Reports: Consumer Income, Series P-60, No. 126, Table 8.

Note that in these regions annexation occurs infrequently. Two midwestern communities, Indianapolis and St. Louis, illustrate the difference that annexation can make to the economic and fiscal well-being of a central city. The cities are located in States and metropolitan areas with comparable 1979 per-capita incomes (Indiana, $8,570, and Missouri, $8,248; Indianapolis SMSA, $9,361, and St. Louis SMSA, $9,171). However, Indianapolis--which merged with its county, in effect annexing its suburbs--had a 1979 per capita income of $9,724, while St. Louis's was only $7,721. Baltimore and Nashville illustrate a variation on this phenomenon. Baltimore's State and metropolitan area had 1979 per capita incomes ($9,333 and $8,967, respectively) that were higher than Nashville's ($7,316 and $8,510, respectively). Yet Nashville, which encompassed its suburbs within a single jurisdiction, had a 1979 per-capita income of $9,572 compared to $8,284 for Baltimore. Both the convergence of regional and State per-capita incomes and the divergence of central city and suburban household and per-capita median incomes suggest that central-city fiscal problems are a product of inappropriate boundaries and inappropriate State and metropolitan fiscal equalization policies rather than of insufficient resources requiring Federal intervention and nationwide redistributive efforts.

By their powers to establish boundaries, boundary-change procedures, taxing authority, service requirements, and debt limits, State governments can assure that their local governments have adequate revenue bases, and they can reduce the wide disparities in fiscal capabilities that have developed even among local governments within the same metropolitan area. (Cooperation between States is possible for interstate metropolitan areas.) Federal intervention is both inefficient and ineffective, although it may be preferred by those who may not wish to deal with this difficult issue. Federal assistance should be confined to matters of national priority. (The Administration's federalism initiatives are discussed in more detail in Chapter Three.)

Although most of the governmental bodies experiencing fiscal emergencies have been located in older cities with sluggish economic activity, the great majority of cities with the same or very similar economic conditions have not had acute financial problems. It is clear that the character and quality of city management serve as potent intervening forces in such situations. If city leaders recognize budget limitations at an early date, poor economic conditions can be prevented from causing financial injury to city government.

A recent review of the experience of financially troubled city governmental bodies suggests several reasons why these governments are in fiscal distress.

- With very few exceptions, the financial problems evident in 1981-2 are the most recent version of financial difficulties that have recurred for several years. No single event has triggered these problems. Rather, they are the accumulation of years of explicit budget decisions made by local elected officials who lacked the will or ability to address politically inconvenient issues. Most post mortems of financial emergencies indicate that the underlying budgetary problems were obscured for several years by misleading, although perhaps not illegal, government financial reporting.

- Although cities' fiscal problems have been exacerbated by economic downturns and statewide fiscal limitations, it seems to be the case that these events are seriously destabilizing only if superimposed on weak financial structures.

- Financial solutions to city budgetary imbalances often require drastic action: a simultaneous restructuring of debt, reductions in the workforce, freezing of public employee salary levels, productivity increases, reduction on unnecessary services, introduction of user charges, and tax-rate increases. These measures require strong management initiatives and often require hitherto unexercised flexibility from other levels of government and the courts. Some cities facing financial troubles appear to be locked into costly wage and labor agreements that must be renegotiated.

- The most severe financial difficulties in cities are not now arising in general city governments but rather in the independent authorities related to city government--especially transit districts, school districts, and hospitals. Over time, many of these authorities have become dependent on large budgetary transfers from the general-purpose city government. Covering deficits by requesting a transfer of funds from the city became a habit and diminished a sense of budget constraint for some of these officials.[a]

What is notable about these problems is that they require action by State and local governments rather than by the Federal Government.

There is evidence that State and local governments have improved their financial management skills and, as a result, today are less vulnerable fiscally to aid cutbacks and interest rate changes than they were in the mid-1970's. Cities have dramatically reduced their reliance on short-term debt since 1975 and restructured their long-term debt away from full-faith-and-credit debt toward revenue-bond debt. The latter type of debt is supported solely from the revenues generated by specific investment projects--such as sewer and water utility revenues or repayment of mortgages--and carries no obligation for the city's general funds. It is, of course, far less threatening to the financial position of governments than general-obligation debt. And surprisingly, despite high interest rates, the net interest position of city governments has actually improved. Interest earned by city governments has responded with much greater alacrity to interest-rate increases than has interest paid. In 1979-80, for the first time ever, cities earned as much interest on general accounts as they paid out.

Although the importance of State aid to cities was somewhat obscured during the last half of the 1970s by the growth in Federal assistance, the gradual assumption by States of what were once city fiscal obligations has been a steadier trend. This growth in State aid has taken several forms. Over the last decade, many States have developed large programs of local property-tax relief. These programs typically take the form of circuit-breaker laws, which rebate either to the entire residential population or to households below specific income levels a portion of their "excess" property taxes--i.e., property taxes that exceed a designated fraction of household income. These State rebate programs have also accelerated the movement away from reliance on property taxes. From a local government perspective, they substantially reduce the net burden of local taxes, providing an important form of indirect fiscal relief to city budgets.

A more persistent trend has been the steady increase in the States' share of public school expenditures. Traditionally, schools have been the largest items in local government budgets. States have also assumed greater financing responsibility for many social welfare activities, such as Aid to Families With Dependent Children, Medicaid, and public hospitals. This change in State financing roles has been especially beneficial to older and fiscally stressed cities with their large poverty populations.

A third development in State aid policy has been the sharing of State revenues with local governments; this sharing has often been targeted to fiscally or economically distressed locations. A number of States have sought to free local governments from reliance on inelastic revenue bases (those bases that increase slowly, if at all, in response to economic growth or inflation) by providing certain cities with a share of Statewide tax collections. The degree of targeting has often been enhanced by aid formulas that allocate resources to compensate for specific local fiscal or economic difficulties.

The test of State responsiveness to local governments will occur as States face budgetary problems of their own. As Federal assistance is reduced, will they cut their own programs, cut State aid to localities, or raise taxes? It appears that at least some big cities that have become overly dependent on aid from taxpayers elsewhere (that is, on Federal aid) will be challenged by other jurisdictions seeking State aid.

Local governments are responsible for matching their expenditures with their available resources. They must decide what services should be provided and what services should be left to the private sector or to individuals and families. They are responsible for encouraging competition among a diversity of service-providers to reduce dependence on local bureaucracies and increase responsiveness in local service delivery. They are also responsible for instituting the kinds of personnel, wage, and productivity policies consistent with the need to provide essential public services on a limited budget. To accomplish these objectives, local governments will undoubtedly need to improve their accountability to local citizens and seek community support for strategies to enhance the long-run welfare of their communities. In conjunction with their private sectors, local governments will need to plan their expenditure with a view to increasing the long-run productivity of their communities. They will need to learn to think strategically and to make sensible capital investment and maintenance decisions in the light of realistic assessments of their futures. This point is pursued further in Chapter Four.

CONCLUSION

The variety of urban conditions is ultimately traceable to the decisions and preferences of individuals and firms as they respond to innovations in technology, transportation, and communication and to changing life-style preferences. In the aggregate, these decisions have resulted in the continuing decentralization of population and jobs from central cities to suburbs and nonmetropolitan areas and from the Northeast and North Central regions to the South and the West. As a consequence, some communities are coping with the challenges of growth, while others are coping with those of shrinkage.

Broad trends can be identified, but, of course, their impact varies among urban communities.

The following critical observations emerge from this analysis:

- Aggregate trends obscure large differences among individual cities.
- Distressed cities are found in all regions of the country.
- The loss of population and of manufacturing jobs does not necessarily spell decline for a city.
- The proportion of the U.S. population residing in today's distressed jurisdicitons has been declining.
- Regional and State income disparities have continued to narrow.
- The range of conditions among major cities is very wide; but the range among communities within the same metropolitan area may be even greater.
- Disparities between central cities and their suburbs have widened, notably in the metropolitan areas of the Northeast and North Central regions where annexation has been rare.

These trends indicate that cross-regional income redistribution is unnecessary, and that States are becoming equally able, if they choose, to address disparities among communities within their borders and within individual metropolitan areas by appropriate policies concerning city boundaries, annexation procedures, and taxing authority.

May 7, 1982

CHAPTER THREE

RESTORING BALANCE IN OUR FEDERAL SYSTEM OF GOVERNMENT

In his 1982 State of the Union Address, President Reagan announced a bold new initiative for restoring balance among the Federal, State, and local governments in the Federal system. In stating the problem, he noted:

> Our citizens feel they've lost control of even the most basic decisions about the essential services of government -- such as schools, welfare, roads, and even garbage collection. And they're right.
>
> A maze of interlocking jurisdictions and levels of government confronts average citizens in trying to solve even the simplest of problems. They don't know where to turn for answers, who to hold accountable, who to praise, who to blame, who to vote for or against.

He identified the source of the problem: "The main reason for this is the over-powering growth of Federal grants-in-aid programs during the past few decades"; and he proposed a solution:

> Let's solve this problem with a single bold stroke -- the return of some $47 billion in Federal programs to State and local government, together with the means to finance them and a transition period of nearly 10 years to avoid unnecessary disruption.

This section examines the past and discusses what the Reagan Administration proposes to do "to make government accountable to the people, to make our system of federalism work again."

EVOLUTION OF AMERICAN FEDERALISM

American federalism is a system of limited governments sharing powers. The political problem faced by the framers of the Constitution was how to create a strong national government while preserving autonomy for States and liberty for individuals. That neither State autonomy nor individual liberty have faded away testify to the framers' success, but throughout American history, a creative tension has existed between the Federal Government and States and localities. Historians differ over the identification of periods in the evolution of federalism, but for the purpose of describing Federal involvement in urban affairs, three periods suffice: the first lasting from the founding of the Republic until about 1935; the second, from about 1935 to about 1960; and the third, from about 1960 to about 1980.

In the first period, the Federal Government's involvement in urban affairs was very modest. The Constitution prescribed a discrete separation of powers between the Federal Government and the States, the sources of local government authority. The U.S. Supreme Court upheld this "dual federalism" through narrow constructions of the interstate commerce clause, the public welfare clause, the 14th Amendment, and other elements of the Constitution. As industrialization quickened, the Federal Government enlarged its role by beginning to regulate big business and the conditions of work, but the Federal role in urban affairs for the first 150 years remained limited to ad hoc activities, such as a study of slums commissioned by Theodore Roosevelt and selective assistance for housing war production workers during World War I. The passive Federal role under federalism ended with the Great Depression: existing institutions did not prevent it, and they were inadequate to provide a reasonably expeditious recovery.

The second period, "cooperative federalism," began in the mid 1930's when the U.S. Supreme Court began to interpret the Constitution more broadly. This gave the green light for the New Deal and for a selective Federal role in managing the economy and providing Federal grants-in-aid to State and local governments. The Federal Housing Administration was created in 1934 to give middle-income families greater access to home mortgages. The Tennessee Valley Authority and the Rural Electrification Administration were created and soon became symbols of a new Federal role in economic development. As a result of new programs in slum clearance, public housing, public works, and employment creation, a Federal responsibility for countercyclical policy slowly came to be accepted. This Federal role in countercyclical policy was given permanence in the Employment Act of 1946; urban-related programs were often the practical vehicles for its implementation. Broader support for enlarging the Federal role in urban affairs came with the urban renewal program in 1949. Although the new "cooperative federalism" lacked the clearly-delineated Federal and State roles inherent in the earlier dual federalism, it was limited by program areas, and national roles were aligned with clear-cut national goals.

A third period of American federalism began to emerge around 1960. It began with a substantially enlarged role for the Federal Government in "marble cake federalism," a confusing swirl of Federal, State, and local participation in almost all programs and policies that affect the average citizen. In 1960, the Federal Government had 132 grant-in-aid programs, costing seven billion dollars. By 1981, it had about 500 programs, costing about $95 billion, and was described as "fruitcake federalism" by one witty observer, who likened the system to a rich but amorphous mass studded with choice goodies.[a]

Federal grant-in-aids were seen as inducements to involve State and local governments and nongovernmental entities in efforts to alleviate the succession of social problems brought to national attention by the civil rights movement, the war on poverty, urban unrest, and the environmental movement. In the climate of the time, no matter how intrinsically local the problem, evidence that it was common and widespread was sufficient justification to trigger

Federal action. Increasingly, State and local officials and their constituents looked to Washington for leadership and the resources to deal with nearly every problem, however narrow its scope or intractable its cause. This dependence on Washington has had a debilitating effect on our national political life and its institutions. More often than not the Federal program did little more than demonstrate concern about an age-old condition and offer the illusion of progress. This political posture in itself was often ample reward for those who could be first to throw money at the newly defined problem. (With respect to social programs, at times it appeared as though everyone had to be brought above the median in every measure of social well-being, regardless of the mathematical impossibility of doing so without ruthlessly perfect egalitarianism.)

Many of the Federal programs supported activities that had been the responsibility of State and local governments but this generated little reaction, other than dismay that these governments had failed to "solve" those problems. There was little recognition that the swift translation of the perception of a problem into the creation of a Federal program effectively pre-empted such corrective action. What is more, as the next two sections document, the programs were unsuccessful--sometimes spectacularly so--and so were efforts at reform, which inadvertently increased the size, scope, and intrusiveness of the Federal grant system.

PAST URBAN PROGRAMS

A brief examination of several earlier, major urban programs is instructive.

Urban Renewal

Starting as the slum-clearance program in 1949, the original goal was "the realization...of a decent home and a suitable living environment for every American....[a] Conflict arose between urban renewal as an avowed housing program (to eliminate substandard housing and build new towns and moderate-income housing) and as a development program (to transform downtown areas and create jobs).

As a housing program urban renewal failed. Indeed, it contributed to a net reduction in the central-city housing stock. The number of units demolished was 600,000 while only 201,000 new units were built. Moreover, 80 percent of the new units were for upper income tenants. Some 334,000 families were forced out of their homes by government action, and very few were able to move back to their original neighborhoods. A similar impact was felt by small businesses in these areas, as entire neighborhoods were demolished. The result of all this activity was extraordinary benefits for a select group of builders, developers, and landowners at the expense of most residents and all taxpayers.

Community Action Program

This program was intended to improve the economic condition of inner-city inhabitants by increasing individual employability or enhancing necessary infrastructure.

The Community Action Program (CAP) had ambiguous but ambitious intentions and a very controversial history. If focussed on coordinating the delivery of social services to the poor and minorities. The local CAP agencies often took the role of advocate of the poor and challenger of established agencies, a confrontational style that reduced their popularity in local government and led to repeated efforts to curb their autonomy and reduce their funding. The "maximum feasible participation" of the poor led in many communities to political and sociological change taking priority over specific programmatic activities. For its proponents, this approach was a necessary precondition to effective programs at the local level. For its critics, CAP was divisive and unproductiv Both in the communities where controversy was severe and the many communities where the process was more peaceful, CAP altered the processes, tactics, and consequences of "citizen participation" not only for the poor in the inner city but for all social and economic groups.

Implementation of the CAP program was hampered by resistance from the local agencies it was intended to coordinate and the difficulty of staffing in haste a new program with such potential for controversy and an uncertain mandat The turnover of local CAP directors was exceptionally high, which reduced program stability and management effectiveness. The consequences generally were to generate either a relatively passive CAP agency merely funding the activities of other local agencies, or an agressive agency which exercised its coordination role across a narrow range of activities and for a specific constituency rather than relating to the general community.

The national priorities of the Federal agency responsible for the program tended to override the activity choices of the local CAP agencies and makes assessment of their activities more difficult. Federal preference for particula programs was enforced through the review and approval of local program requests. The allocation for innovative, locally-initiated programs therefore was restrict to an average of one-third of the total funds available. When combined with the administrative problems of staffing and local coordination, the programmatic performance of local agencies was not outstanding.[a]

Model Choices

The Model Cities program started in 1965 as a limited experiment in coordinating Federal funding of urban programs and promoting coordinated social and physical planning in inner city neighborhoods. It was addressed to concerns current at that time: (1) dissatisfaction with urban renewal programs and related efforts to deal with urban slums; (2) difficulty in reconciling citizen participation and decentralization of government programs with the interests of established bureaucracies and officials; and (3) fragmentation and lack of coordination of national grant-in-aid programs. The focus on planning and general local government authority over the program was a response to deficiencies in War on Poverty programs, especially the Community Action Program. Concentrated and targeted aid, using the discretionary funds of the Model Cities program to link and supplement existing programs, was expected to enhance local flexibility and innovation and to leverage local funds relative to Federal funding through categorical grants. The lack of coordination of existing programs was seen as a major component of the difficulties of inner city neighborhoods. Successful demonstrations, originally intended to be eight to ten in number, were to indicate promising strategies and encourage more cooperation within both local governments and the Federal establishment.

As actually adopted, the Model Cities program lost much of its concentration, coordination, and demonstration potential. To achieve Congressional passage, a total of 150 Model Neighborhoods were authorized, 15 to 20 times as many as originally contemplated.[a]

The principal assessments of the Model Cities program focus on the unrealistic expectations for local planning and coordination it had and the under-estimation of the resistance to coordination by existing Federal programs.[a]

> The gap between promise and performance was conspicuously large in the Model Cities Program. Looking toward future federal efforts to cope with the problems of cities, we consider it important to distinguish among three different sources of shortcomings in the program. Some faults arose from flaws in the inital conception and design, such as the failure to investigate statutory and funding limitation in other grant-in-aid programs that were expected to be

> readily available for use in the model neighborhoods. Others arose from ineptness in administraton, such as the imposition of unrealistic and counterproductive planning requirements on the cities. Still others, however, resulted from the nature of the federal government itself, the behavior of its executive departments, and the politics of its grant-in-aid system.[a]

The pressures on Federal officials to have ongoing programs and expend existing authorizations led them to expand the intrusiveness of their technical assistance, to emphasize "delivery of services" rather than the planning process and coordinated efforts, and to introduce Federal program priorities in place of local innovations. The expenditures were heavily on social service delivery rather than on infrastructure because they could be spent earlier.

Attempts to coordinate complex, Federal-grant programs with the Model Neighborhood plans considerably underestimated both the statutory-regulatory and the political clientele barriers inherent in the established grant programs. Instead of involving the hoped-for two to four times as much in additional Federal, local and private resources, the multipliers for local Model Cities programs proved to be one or less.[a]

Model Cities could also be criticized for its neglect of the private sector as an actor on the urban scene. It was essentially a purely public-sector approach although it had some cooperative connections with private, non-profit organizations. Economic development was a secondary objective and job creation was a low priority compared to social service delivery. To the degree low-income individuals were hired as a result of the Model Cities program, it was primarily in entry-level public-sector social-service jobs, as a by-product of benefit requirements and patronage pressures of community advisory boards.

MANAGING THE FEDERAL GRANT SYSTEM

Federal grants-in-aid create predictable managerial problems for both Federal agency grantors and State and local grantees. Ironically, efforts to improve the management of Federal grants-in-aid have often had the unintended effect of increasing the complexity and unmanageability of the Federal grant-in-aid system. Federal agencies charged with implementing grant-in-aid programs want assurance from grant recipients that their funds will be used in accordance with statutory and administrative guidelines, and so they are inclined to establish relatively detailed application and reporting requirements. To increase their confidence that grant recipients have the capacity to carry out the program activity, they may prescribe organizational and procedural arrangements. By the late 1960's, Federal agencies proceeding independently had created a maze of local counterparts. The Office of Economic Opportunity created Community Action Agencies (CAA's); the Economic Development Administration in the Department of Commerce created Economic Development Districts (EDD's) and Economic Development Program Committees (EDPC's); the Department of Health, Education and Welfare created Comprehensive Health Planning Agencies (CHPA's); the Department of Housing and Urban Development created Community Demonstration Agencies (CDA's); the Department of Labor formed the Cooperative Area Manpower System (CAMP's) and the Concentrated Employment Programs (CEP); and the Appalachian Regional Commission formed Local Development Districts (LDD's). Several agencies (HUD, DOL, HEW, and OEO) jointly-sponsored neighborhood centers, and HUD, with the Departments of Agriculture and Commerce, organized Nonmetropolitan Districts (NMD's).[a]

To overcome the lack of coordination among these local agencies, the Federal Government created new grant-in-aid programs to coordinate the existing ones. For example, HUD Section 701 planning funds were used to encourage the creation of areawide coordinating mechanisms called Councils of Government (COG's); and the Appalachian Regional Commission, a regional coordinating mechanism, was imitated in eight other regions. As one observer accurately reports: "The complexity of federal rules and regulations applicable to each program was compounded, not reduced, by the coordinating systems designed to simplify the program delivery process."[a]

Increasingly aware of the lack of coordination among Federal agencies, successive administrations initiated legislation, reorganization plans, domestic councils, OMB circulars, Federal management circulars, Federal regional councils, and numerous interagency study groups to meet rising complaints about categorical grant-in-aid programs. State and local officials complained that Federal agencies pursued program goals without regard to local needs; that certain needs could be met only by application to several Federal agencies; that the application process was too complex; that the general deluge of Federal information and reporting requirements was becoming too complicated to understand; and that Federal programs frequently overlapped or failed to meet the key needs of recipient governments.[a]

Two responses to their demands that the grants-in-aid be broadened and simplified--the creation of block grants and the standardization of Federal grant procedures--have had unintended effects of their own. Categorical grants are susceptible to numerous defects. As reported above, they can be excessively narrow in scope and unresponsive to local priorities; they can be designed to by-pass State and local elected officials, reducing political accountability; and many provide considerable discretion to Federal officials in making awards. Under the mantle of New Federalism in of the Nixon Administration, efforts were made to correct these defects. Numerous categorical grants were combined into block grants, including the Comprehensive Employment and Training Act (1973), Community Development Block Grant Program (1974), and Title XX (Social Services) of the Social Security Act (1974); and a program of General Revenue Sharing with States and local governments was begun. These new forms of Federal assistance funneled assistance through State and local governments, permitted increased responsiveness to local conditions, and substituted formulas for Federal agency discretion in the distribution of funds. These were achievements of considerable magnitude. Yet, ironically, these reforms only increased Federal influence over States and localities. All of them provided Federal assistance for functions that had traditionally been regarded as State and local responsibilities; and some diminished the role of States by providing assistance directly to local governments or requiring mandatory State pass-throughs. Because they distributed their funds by means of formulas, they involved a larger number of local governments more deeply in the Federal grant-in-aid system. With the passage of General Revenue Sharing, 38,000 local governments became direct beneficiaries of Federal grants-in-aid, many of them for the first time. As Table 3-1 shows, Federal aid per-capita jumped substantially between 1970 and 1975 as General Revenue Sharing and the block grant programs were put into effect. While per-capita Federal grants-in-aid doubled between 1965 and 1970 under the influence of Great Society categorical programs, they more than quadrupled between 1970 and 1975 under the influence of the New Federalism programs; and the largest rates of increase in assistance were experienced by the smallest communities. Per-capita Federal grants-in-aid continued to increase between 1975 and 1980. Assistance to large communities increased at a faster rate as the Carter Administration tried by formula and regulatory changes to target Federal assistance to the needier communities; but, as statutory and administrative requirements were tightened, State and local officials complained of the "recategorization" of block grants.

Table 3-1

Per Capita Federal Aid to U.S. Municipalities by Population Size (1960, 1965, 1970, 1975, 1980)

	Federal Aid Per Capita[1/]				
City Size	1960	1965	1970	1975	1980
Over 1,000,000	$ 4.93	$ 5.09	$17.77	$ 70.34	$144.45
500,000-999,999	8.81	14.64	30.42	100.82	192.06
300,000-499,999	7.56	5.31	13.37	64.68	131.45
200,000-299,999	5.24	3.78	13.18	60.96	101.74
100,000-199,999	5.39	4.37	11.09	42.73	79.45
50,000- 99,999	2.56	3.76	7.11	33.49	53.14
Under 50,000	3.99	2.84	3.04	21.84	34.66
All Cities	3.90	4.79	10.13	43.06	77.13

[1/] Total intergovernmental aid minus State intergovernmental aid.

Sources: U.S. Bureau of the Census, *City Government Finance in 1960, 1964-1965, 1969-1970, 1974-1975, 1979-1980*, Table 4.

Federal grants-in-aid to State and local governments peaked as a percentage of total Federal outlays (17.3 percent) and as a percentage of State and local government receipts from their own sources (31.7 percent) in FY 1978 due to the Carter Administration's $13.5 billion Economic Stimulus Program (ESP).[a] A countercyclical program conceived as a response to the deep recession of 1974-75, the Economic Stimulus Program made formula grants to State and local governments under the Department of the Treasury's Anti-Recession Fiscal Assistance (ARFA) program, the Department of Labor's Public Service Employment (PSE) program, and the Department of Commerce's Local Public Works (LPW) program. In the view of many analysts, the Economic Stimulus Program was largely unsuccessful as a countercyclical program.[a] State and local governments were prevented by their own budget planning and expenditure cycles from spending ARFA funds sufficiently rapidly to have the desired countercyclical effect and State surpluses increased. Local governments were encouraged to hire public service employees at a time when they were cutting back their own work forces, with the result that they transferred some former employees to the PSE rolls and substituted some PSE enrollees for employees that they would otherwise have hired with their own resources. Local public works funds were frequently used for projects that were slated for funding with local revenues, although perhaps at a later time.

Apart from its questionable efficacy as a countercyclical strategy, what is significant about the Economic Stimulus Program is its contribution to the evolving relationship between the Federal Government and State and local governments. It marks the culmination of the movement toward the nationalization of the Federal system. As the Federal Government carried out its responsibility to maintain the stability of the national economy, State and local governments became instruments of national policy in ways that were not necessarily in their own interests. They were encouraged to spend additional revenues rapidly at a time when first local governments (1974) and then State governments (1976) were beginning to curtail their growth in real spending from their own funds. With assistance from the Federal Government, they added employees and expanded services at a time when they were inclined to reduce their rate of growth in employment and payroll, a trend emerging as early as 1972, well before the approval of Proposition 13 in 1978 and Federal aid cutbacks in the post-1978 period.[a]

The growth of Federal grants-in-aid, in the words of President Reagan, "has led to the distortion of the vital functions of government." It is time to pause and reconsider what the Federal Government should do and what it should not. The list of what the Federal Government should do is long, including provide for the national defense, promote national economic growth, and provide for the elderly, blind, and disabled through Social Security and related programs, but it should not include financing traditionally State and local services or encouraging State and local governments to engage in activitie that are contrary to their own and the Nation's interest. As was pointed out in Chapter One, there is a clear distinction to be made between local and nation public goods, and there are appropriate principles availabe for distinguishing between them and for deciding which government to hold accountable.

Counterproductive Federal intervention has manifested itself in another area, the growth of Federal regulations and mandates, which is discussed in the next section.

Growth of Federal Regulations and Mandates

State and local governments have to absorb increased costs to meet Federal regulatory standards. One example illustrates how an excessively high uniform national standard can impose unreasonable costs on State and local governments.

Under the Clean Water Act of 1977, Congress established the national goals of "fishable-swimmable water" by 1983 and authorized the Environmental Protection Agency (EPA) to provide grants on a formula basis to States for up to 75 percent of the costs of planning, designing, and constructing the publicly-owned wastewater treatment facilities necessary to meet the requirements of the Act. EPA conducts a biennial needs survey to estimate the costs of meeting the 1983 goal of fishable-swimmable waters. Since wastewater treatment needs are strongly related to current and projected population levels, EPA estimates the costs to meet 1983 goals for two different time periods and population levels--the present and the year 2000. Its 1978 estimate of the amount of money needed to serve 1977 population needs was $79.6 billion, while the amount needed to serve year 2000 needs was $106 billion. (Figures from the 1980 survey raise the latter estimate to $119 billion.) Congress has authorized only a fraction of this amount; yet by conventional standards, these amounts have been large--about half of the total authorized annually for State and local revenue sharing. Depending upon their past performance, their physical location, and their degree of fiscal strain, the financial burdens imposed on State and local governments have varied widely. The rigidity of the national goal and the nature of the financial assistance offered have combined to produce numerous undesirable and unintended impacts:

- Relatively high Federal matching grants for capital investment have encouraged the construction of excessively large and capital intensive plants.

- The unavailability of Federal subsidies for operational costs has burdened local governments with unexpectedly high annual outlays.

- Needs for secondary and tertiary treatment facilities have been mandated with no effort to balance the additional capital expenditure with the marginal gains to pollution reduction.
- Federal subsidies for collector and interceptor sewers have encouraged some communities to open new land for development before it was needed, accelerating the movement of residential, commercial, and industrial development from central to peripheral locations. (In other areas, refusal to serve areas in the path of development has unnecessarily raised land and housing costs in the serviced areas.)

Few people would deny the desirability of clean water, and yet, most people would decry the financial waste and undesirable impacts on urban development patterns that efforts to meet the clean water standard have engendered. It is the intention of the Administration to weigh the benefits of a regulation against its costs, to consider alternative means for achieving the objective at lowest possible cost, and to promulgate only those regulations whose benefits clearly outweigh their costs.

Pursuit of this policy will require some hard choices. To take another example, few people oppose the objective of increasing the transportation mobility of the handicapped. But Section 504 of the Rehabilitation Act of 1973 threatened to impose billions of dollars in costs upon urban areas for the purchase of buses with wheelchair lifts and for retrofitting rapid-transit stations with escalators and elevators. New York City estimated that compliance would cost at least $2.6 billion. The Chicago Transit Authority estimated that compliance would cost more than had been invested in the entire transit system since 1890. Los Angeles estimates that after spending $17 million to equip

1,140 buses with lifts for the handicapped, no more than five riders daily out of 300,000 would use them.[a] Numerous analyses demonstrated that the needs of the handicapped could be met less expensively and with greater responsiveness to their special needs by van pools, taxis, and similar means. Shortly after assuming office, this Administration declared its support for these less costly alternatives. This course sacrifices the full integration of the handicapped into the mainstream of urban life, including its rush-hour crushes, but it makes it financially feasible to achieve the primary objective of increasing the mobility of the handicapped.

It has become too easy for the Federal Government to mandate an unassailable social objective and to leave it to others to pay the bill. It is the intention of the Reagan Administration to subject these mandates to careful scrutiny. Not all matters that have been subjected to regulation by Congress are properly within the domain of the Federal Government. For example, with the passage of the Bilingual Education Act of 1974, Congress mandated that any school system with more than 20 students who were native speakers of a foreign language should provide them instruction in their native tongue. In this case, Congress injected itself into a controversial area of educational philosophy and sought to impose its own views upon States and local governments, who have traditonally borne the responsibility for educational policy-making. This mandate is currentl under review. Various other standards now set by the Federal Government will also be examined to determine whether more responsibility for setting and enforcing standards can be returned to State and local governments. In numerous circumstances, we can trust informed voters to elect State and local officials who promise them the degree of safety and freedom from risk that they feel that they can afford.

State and local governments encounter the regulatory arm of the Federal Government in another sphere--i.e., as conditions for various forms of Federal assistance. As Federal assistance to State and local governments has increase so have Federal mandates. Mandates have been defined as "any responsibility, procedure, or other activity that is imposed on one government by another by constitutional, legislative, administrative, executive, or judicial action as a direct order or a condition of aid."[a] Some mandates apply to a single program or function while others apply to more than one program or function and are called "cross-cutting."

In a study of the management of Federal assistance, OMB identified 59 cross-cutting regulations, over half of which had been instituted in the 1970's It classified 36 of the regulations as socioeconomic policy requirements implementing national policies such as protecting civil rights, protecting the environment, and providing for the handicapped; and the remaining 23, as administrative and fiscal policy requirements defining grant standards and financial management practices.[a]

The growing number of mandated socioeconomic objectives increases the likelihood that programs will have multiple and sometimes conflicting objectives Since Congress and agencies think and act primarily in terms of single programs, with little regard for the effects of their uncoordinated actions on recipients who receive funds from more than one source, large State or local agencies receiving assistance from several Federal agencies can receive conflicting instructions on how to comply with a single requirement.

Researchers have tried to estimate the number of mandates imposed on local government and their costs. A study of the number of Federal and State mandates imposed on one city and one county in each of five States--California, Washington, North Carolina, Wisconsin, and New Jersey--between 1941 and 1978 identified 1,257 Federal mandates, most of which had been issued since 1970. The study estimated that 50 percent of the cost of meeting all types of Federal mandates was borne by the Federal Government, but 100 percent of the cost of meeting cross-cutting mandates was borne by local general funds. The study showed that, in the absence of the cross-cutting mandates, the local governments surveyed would have continued the activities at the mandated level only 36 percent of the time.[a]

Another study analyzed the incremental costs to seven communities of six Federal regulatory programs commonly regarded as the most burdensome: the Clean Water Act Amendments of 1972 and 1976, the Unemployment Insurance Compensation Act Amendment of 1976, bilingual educational requirements (under the 1974 Bilingual Education Act and the 1964 Civil Rights Act), the Education of All Handicapped Children Act, transit accessibility requirements for the handicapped (under the Rehabilitation Act of 1973), and the Davis-Bacon Act. The researchers estimated incremental operating costs of $51.9 million in 1978, or $19 for every resident of the seven jurisdictions, and incremental capital costs of totalling $113.5 million. If the capital costs were amortized over a 20-year period at eight percent interest and added to the operating costs, the total incremental costs would vary with local circumstances from $6 to $52 per capita, with an overall average of $25 per capita--the average per capita amount of general revenue sharing received by these communities. Regardir these costs, the authors reason:

> ...in contrast to most business regulation, these regulatory programs are designed to benefit their own regulatory targets -- the cities themselves, or at least the residents of these cities. They require local governments to provide services or benefits that parallel or supplement (where the, do not entirely overlap) services or benefits already being provided. The incremental costs of these programs, then, generally reflect expenditures that the local government might have made on their own, but have

> not, in fact, wished to make. Thus from the local perspective, at least, virtually all of the incremental costs associated with these programs must have exceeded the perceived benefits -- else the programs would have been undertaken without a mandate from Washington. From a national perspective, of course, the perceived benefits may still justify the investment, but this does not make it easier for local jurisdictions to swallow the costs involved.[a]

Both of these studies show that the cumulative burden of Federal regulations on local governments stemming from grant-in-aid programs can be very high. Under the Presidential Task Force on Regulatory Relief, numerous concrete steps have been taken to relax the programs regulations affecting State and local governments, and OMB is working with Federal agencies to develop a single set of implementing rules for each of the roughly 60 cross-cutting requirements. While these actions will provide some relief, more substantial relief will be realized when major Federal grant-in-aid programs and the resources for financing them are turned back to States and their localities; and State and local officials can determine what programs to provide, what administrative standards to prescribe, and what socioeconomic requirements to enforce. The Federal Government will, of course, retain its ultimate responsibility for seeing that State and local activities are carried out in a manner that preserves constitutionally-guaranteed civil rights and liberties.

GROWTH OF CITY DEPENDENCE ON FEDERAL ASSISTANCE

As Federal grants-in-aid have grown, so has the fear that cities would become excessively dependent upon Federal aid. One commonly expressed concern holds that cities have become so dependent on direct Federal assistance that their fiscal condition will necessarily be badly damaged by cutbacks in Federal funding. This fear is thought to be especially applicable to "distressed cities"--those urban centers wrestling with the imbalance between their total revenues and the larger expenditures they would like to make. The concept of fiscal dependence is difficult to assess in qualitative terms. Federal dollars have been crucial for the delivery of certain services in almost every city. Extreme dependence would imply that cities must curtail essential services when faced with Federal aid cutbacks, or their budgets will be thrown into disarray. It is not possible to make such a judgment without extremely detailed information about the uses of Federal funds, the possibilities of increasing productivity, and the potentials for raising local revenues to replace Federal aid.

One simple measure of Federal aid dependence is the fraction of total city government revenues accounted for by direct Federal assistance. Table 3-2 presents such a measure for the Nation's 46 largest cities (those cities with populations of 300,000 or more). The table shows a high degree of variation; Federal aid ranges from 6.5 percent to 40.8 percent of total revenues.

There are qualifications that must be kept in mind in interpreting Table 3-2. First, there is great variation among cities in local tax capacity, local tax effort, and State aid receipts. The Federal budget share is influenced by the size of these other revenues. Cities located in States without generous State aid programs may report a major dependence on Federal revenue; likewise, cities with very low local tax rates will have the appearance of high Federal dependence, but in both cases other revenue sources could be made available to offset Federal aid reductions, if voters desired this outcome. Functional dependence on Federal assistance in such cities is, if anything, inversely related to the share of Federal dollars in the city budget. Unfortunately, it is difficult to separate these costs from cities that are taxing at or near capacity on a meager tax base. Such cities will also tend to show high Federal aid shares, and Federal dollars will be far more crucial to their budgets. Table 3-2 attempts to control to some degree for this difference by indicating whether cities have above or below average local rates of taxation of their own resources. Using this standard, the greatest dependence on Federal aid may be said to exist in cities that have both above-average shares of Federal assistance in total revenues and above-average local tax rates.

Another problem in interpreting the figures in Table 3-2 occurs because city governments bear different responsibilities and functions. For instance, some cities, like New York, Washington, and Boston, finance local school systems, while in most other cities' school systems are financed independently of the city government. Since Federal aid to education has been less important than Federal aid for a number of other services, cities with dependent school systems tend to have lower Federal aid shares. Yet these cities may face more serious financial problems if Federal aid is cut because they bear larger overall fiscal responsibilities. Further, cities like New York, San Francisco, and Baltimore also finance many of the services of county government, including public assistance, major health facilities, and correctional institutions. Although Federal aid plays a major role in supporting these functions, this aid is often passed through the States, raising the State aid portion of these city budgets and apparently reducing the importance of Federal monies.

Despite these interpretive difficulties, Table 3-2 reveals an interesting distribution among the big cities with respect to distress, fiscal problems, and Federal dependence. The most striking feature is the placement in the table of distressed cities. Although most public discussion implies that

TABLE 3-2

DEPENDENCE ON FEDERAL AID FOR CITIES OVER 300,000 POPULATION

		Aid as Percent of Total City Revenues (1980)	Above Average Local Tax Rates?[1/] (1978)	UDAG Eligibility Ranking
1	Washington, DC	40.8	Yes	5
2	El Paso	37.3	N/A	3
3	Louisville	37.0	N/A	4
4	San Antonio	34.5	N/A	3
5	Oklahoma City	31.1	No	2
6	Toledo	30.6	N/A	6
7	New Orleans	30.4	No	6
8	Chicago	29.6	No	6
9	Honolulu	28.1	No	2
10	Indianapolis	26.3	N/A	3
11	Pittsburgh	26.2	N/A	5
12	St. Louis	25.9	Yes	6
13	Long Beach	24.5	N/A	3
14	Phoenix	23.7	No	0
15	Portland	23.3	No	5
16	Oakland	23.2	N/A	5
17	Cleveland	22.6	No	6
18	Cincinnati	22.3	N/A	6
19	Detroit	22.2	Yes	6
20	Kansas City	21.1	Yes	4
21	Minneapolis	21.1	No	4
22	San Francisco	20.8	Yes	5
23	Buffalo	20.3	Yes	6
		----------MEDIAN---------		
24	Omaha	20.1	N/A	2
25	Columbus	20.0	No	6
26	Ft. Worth	19.4	N/A	3
27	Baltimore	19.2	Yes	6
28	San Diego	18.8	No	1
29	Tulsa	18.2	N/A	1
30	Los Angeles	17.8	No	3
31	Seattle	16.4	N/A	3
32	Atlanta	16.3	No	5
33	Memphis	16.0 (MEAN)	No	3
34	Austin	15.8	N/A	1
35	Dallas	15.6	N/A	1
36	Nashville	15.2	N/A	1

TABLE 3-2 (cont'd)

		Aid as Percent of Total City Revenues (1980)	Above Average Local Tax Rates? 1/ (1978)	UDAG Eligibility Ranking
37	Miami	15.1	No	4
38	Jacksonville	14.5	N/A	3
39	Denver	12.9	Yes	4
40	Boston	12.0	Yes	6
41	Houston	11.9	No	1
42	Philadelphia	11.7	Yes	6
43	Milwaukee	10.0	No	5
44	New York	8.1	Yes	6
45	San Jose	7.9	N/A	1
46	Newark	6.5	Yes	6
	MEAN	16.0		
	MEDIAN	20.2		

---

[1] Because cities utilize different tax bases, it is necessary to weight their tax rates to determine whether, on balance, they have above-average or below-average rates of taxation. Table 3-2 uses the ACIR definition of a "representative" tax system--that is, it computes the local tax and revenue yield which each city would generate if it fixed sales at the average sales tax rate for these cities; fixed income at the average rate; fixed true property values at the average rates; and raised "other" revenues at the average rate relative to personal income. If a city raises more total local revenues than would be produced by this "average" or "representative" tax system, it is shown in Table 3-2 as taxing local resources at above average rates.

Sources: Column 1: U.S. Bureau of the Census, City Government Finances 1979-80, Table 8.

Column 2: Municipal Finance Officers Association, Urban Condition Indicators, Table 4.6; and U.S. Bureau of the Census, City Government Finances, 1977-78, Table 7.

Column 3: Office of Community Planning and Development, Department of Housing and Urban Development. (Higher scores indicate higher levels of distress.)

distressed cities are highly dependent on Federal aid, the table shows that the relatively distressed cities of Newark and Philadelphia rank near the very bottom in terms of dependence on Federal assistance, while cities like El Paso, Louisville, and Oklahoma City, which are not particularly distressed, rank near the very top. In other words, there is little or no apparent relation between a city's degree of distress and its dependence on Federal aid. Likewise, the cities with the most highly publicized fiscal difficulties (such as Boston, Buffalo, Chicago, Cleveland, Detroit, Newark, New York, and Philadelphia) are also nearly equally distributed between the top and bottom halves of the list, showing little relationship between degree of fiscal difficulty and dependence on Federal aid. (Of course, some of the comments made earlier about specific city responsibilities are applicable here.) Finally, as noted in Chapter Two, there is little relationship between a city's degree of distress and the likelihood that it is experienceing acute financial problems.

This discussion suggests that city dependence on Federal assistance is a complicated subject unamenable to broad generalizations, but the evidence seems to show that distress, fiscal problems, and dependence on Federal assistance are not nearly as closely linked as one might have expected. This implies (but does not prove) that (1) Federal aid is not particularly well targeted; (2) it is not particularly effective; (3) not all cities that are now very dependent on Federal aid would suffer fiscal harm if Federal aid is reduced; and (4) increased aid does not assure freedom from fiscal problems. Under the Administration's New Federalism, States will be expected to assume more responsibility for the adequacy of local tax bases and revenues and institutional arrangements, such as the allocation of functions, that shape local fiscal vitality.

Infrastructure Financing

The current concern about the condition of urban infrastructure provides another example of the effects of Federal priorities on States and localities, and the dangerous near-abdication of responsibility by the latter.

Two aggregate trends dominate the past 15 years of urban infrastructure investment: (1) a persistent decline in real levels of State and local capital outlays, and (2) a steady shift toward greater reliance on Federal aid to determine investment prorities and finance capital investment. From the mid-1960's to the end of the 1970's, State and local governments (in older cities, especially) steadily shifted their budget emphases away from capital spending, capital repair, and capital maintenance to operating services. Between 1968 and 1977, real levels of capital spending by State and local governments fell by almost 30 percent.

The stagnation in State and local capital spending in recent years occurred despite increases in Federal grants-in-aid specifically designed for capital assistance, and substantial growth in other Federal assistance which could be used for capital purposes (at local discretion). The growth of Federal capital assistance precipitated a marked shift in the financing mix for State and local public works projects. In 1957, Federal grants represented less than one-tenth of State and local public works investment. In 1970, Federal grants accounted for 20 percent of State and local capital spending. During the last four years, Federal monies have averaged 40 percent of State and local capital spending.

Shifts in the Federal perception of national investment priorities have been swiftly translated into changes in the types and amount of Federal financing assistance provided to local governments. At the beginning of the 1970's, interstate highway investment--an effort begun in the 1950's--enjoyed a predominance in Federal capital financing assistance. Its role in the Federal capital grants structure has diminished since the early years of the 1970's, primarily because the highway system is substantially complete. Beginning in 1973, there was a surge of Federal capital support for municipal wastewater treatment, reflecting national concern with water pollution problems. During the latter half of the 1970's, there was also substantial growth in Federal capital aid for public mass transit, prompted by the widespread national interest in encouraging mass transit ridership to conserve energy.

The starting point for most major Federal capital financing programs has been a Federally-established standard for capital facilities. The Federal Government regularly compares standards for different facilities with the actual conditions or performance of existing infrastructure. The amount of funding needed to upgrade existing capital facilities to meet Federally-specified standards is treated as a "needs gap." In the past, the Federal Government has usually helped to close the gap through categorical capital grants.

It has become evident in recent years that the Federal Government has established unrealistically high needs standards to guide its infrastructure assistance efforts. Consequently, current Federal policies call for spending much more on infrastructure than voters would be willing to support. For example, the Environmental Protection Agency's 1980 survey estimates the backlog of wastewater treatment facility needs at $119 billion. The Administration proposes to eliminate several categories of "need" under the Clean Water Act. These categories include investment needs to correct infiltration and inflow problems in old sewer pipe, to replace old collection systems, and to provide separate facilities for handling stormwater runoff and wastewater discharges. The costs to correct wastewater and stormwater overflow alone account for approximately one-fourth of the estimated capital needs in sewer systems.

In other areas, too, needs standards are under review. Over one-half of all bridges eligible for Federal aid from the bridge program are deficient because of inappropriate "deck geometry" -- that is, the bridge is narrower than the approaching highway. A proposal is now under consideration to reclassify such bridges as "inconvenient" rather than as "needy." This reclassification would remove this "need" from Federal estimates of capital backlog as well as from the Federal priority system for disbursing bridge replacement, rehabilitation, and repair funds.

But even more important than sensibly defined "needs," is the basic fact that the construction and maintenance of local infrastructure is almost invariably a local public need, not a national concern. This point was discussed in Chapter One, with reference to potholes as an illustrative example. The Federal Government should confine its infrastructure assistance to those activities that serve national priorities. Therefore, the Administration has proposed a number of changes in Federal capital assistance:

- Bridges. Federal capital aid will be reduced. Responsibility for maintenancwe and repair will be returned to States and local governments.
- Highways. Federal capital assistance will be decreased to cover only the Interstate highway system (with emphasis on funding repairs) and the primary road network. ,Capital aid for secondary roads and for urban systems will be phased out.
- Mass Transit. Since the mid-1970's, Federal aid to city transit systems has been used for system modernization, particularly in older cities, and for operating subsidies for financially-troubled systems. Transit systems are the only capital facilities receiving Federal aid for operations. Usually, cities are required to pay the full costs of adequate maintenance and operation to be eligible for Federal assistance for capital expenditures. Consequently, operating subsidies for mass transit will be phased out by 1985. The Administration also proposes to terminate Federal aid for new rail systems or expansion of existing rail systems, with capital aid directed instead to modernization and replacement needs for existing transit facilities. The overall thrust of the mass transit proposals is to increase the self-reliance of local transit systems and to move away from expensive, fixed-rail investment projects.

- Wastewater Treatment. Aid eligibility will be cut back to concentrate on the construction of secondary treatment plants and interceptor lines necessary for existing populations to meet effluent and ambient water standards mandated by Federal law.

The common theme of these proposals is the reduction of the scope of Federal capital support in order to concentrate funding on capital activities that have truly national impact. Federal capital assistance will be limited to cases where:

- The project will affect either the Nation as a whole or a large region. Examples include the interstate highway system and major wastewater treatment facilities.
- State and local capital investment is necessary to meet legally required Federal standards. That is, Federal aid will be used to help State and local governments meet Federal mandates (wastewater treatment, for example).
- Localities have maintained their capital facilities. That is, Federal grants will not be used to help local governments overcome investment needs created by their own past maintenance failures and by failure to replace or repair capital stock. Nor will it be used to expand facilities to service growing populations.

An efficiently managed infrastructure is one of the most important components of an effective economic and community development strategy. State and local governments are principally responsible for determining their infrastructure needs and for financing and maintaining it. To do so they have to establish realistic levels of service, financed, where appropriate, by user fees, tolls and special assessments for street paving, street-light installation, and sewer hook-ups. They may create independent sewer and water authorities, establish State bond programs to improve local government access to credit, use private development fees to cover the cost of new capital, and involve the private sector through capital equipment leasing, lease-purchase agreements, and innovative uses of development rights.

In retrospect, the 1980-82 period may prove to be a turning point for
nfrastructure financing. Preliminary data point to a sharp increase in State
nd local capital budgets, especially in large cities. A budget survey carried
ut by the Joint Economic Committee estimates that cities increased capital
pending by 19 percent in 1980 and planned another 28 percent increase in 1981.[f]
apital spending growth for the largest cities was still greater--25 percent
n 1980 and 30 percent planned for 1981. In fiscal 1982, State and local
overnments will undoubtedly begin to assume a large share of infrastructure
inancing costs as Federal capital aid is cut back. These reversals of long-
tanding trends are constructive steps in the process of reordering responsi-
ilities within the Federal system.

THE FEDERALISM INITIATIVES

What this review of the evolution of American federalism shows is that
ederal grant-in-aid programs have induced State and local governments to
ndertake a wide range of activities and have served as vehicles for the impo-
ition of Federal mandates. Many of the programs have financed activities
hat logically and traditionally have been the proper responsibilities of
tate and local governments. Moreover, the programs have imposed administrative
equirements that cumulatively have added substantially to the costs of State
nd local government. Some of the programs have merely squandered the taxpayers'
oney to no effect, while others have actually been counterproductive in terms
f their objective. Efforts to reform the Federal grant-in-aid system have
requently, if inadvertently, enlarged its scope, expanded its intrusiveness,
nd added to its unmanageability.

Increasingly, State and local governments pursued objectives formulated in Washington instead of within their own jurisdictions. Previously self-reliant, State and local governments and their citizens increasingly looked to the Federal Government for solutions to their problems. The distinction between public and private spheres of action lost much of its meaning, as virtually every perceived problem become a public problem; and for every problem, Federal policy-makers hastened to initiate expenditure programs that promised a solution.

Almost unnoticed, State and local actions often became less responsible, less responsive, and less accountable. Local officials found it convenient to by-pass States when Federal policy-makers provided resources to cope with their local problems. Neighborhood groups found it convenient to by-pass local officials when Federal policy-makers provided resources for social services and ill-defined coordination efforts. In the process, both State and local officials found it possible to postpone indefinitely some much-needed structural reforms and policy initiatives. State and local leadership was subordinated to Federal grantsmanship. Since receipt of Federal funds was in many instances uncertain, State and local officials felt obligated to apply for as many grants as possible so that they would receive their "fair share." The more successful they were, the more accountable they became to remote administrators, and the more difficult they found it to juggle conflicting program requirements. State and local elected officials campaigned on their skill at bringing Federal money into their jurisdictions, a boast which increased their dependence on Federal program managers and formula designers. They became petitioners rather than initiators, their scope of action limited by the Code of Federal Regulations.

In recent years, the Federal Government assumed many responsibilities better left to city councils and State legislatures, and State and local governments have become administrative arms of Federal agencies to an alarming degree, while the Federal Government has swollen to unmanageable proportions. Policymakers have become more remote at the same time that government itself has become more intrusive.

As a consequence, President Reagan has proposed a fundamental rethinking and sorting out of Federal, State, and local responsibilities, so that State and local officials are again accountable to State and local voters for the performance of State and local functions, and Federal officials are accountable to the same voters for the performance of national functions. As he said in his State of the Union address:

> In a single stroke we will be accomplishing a realignment that will end cumbersome administration and spiraling costs at the Federal level, while we insure these programs will be more responsive to both the people they are meant to help and the people who pay for them.

Return of Responsibilities to States

In his address, the President proposed a major shift in the roles and responsibilities of the Federal and State governments. These proposals would significantly alter the existing relationships between the three levels of government, and fulfill the objective of assigning responsibility for service provision to the levels of government that can best reflect the priorities and preferences of citizens. In addition, the proposals turn over to States command of revenue sources currently controlled by the Federal Government.

The plan can be divided into two main components. The first component involves the exchange of service responsibility between the Federal and the State Governments. The Federal Government would assume total responsibility for the Medicaid program, which is currently funded in part by contributions from the States. In turn, the States would assume total responsibility for the Aid to Families with Dependent Children program (AFDC) and the Food Stamps program. Currently, the Federal Government finances 100 percent of the costs of the Food Stamp program and approximately 50 to 78 percent of the AFDC program, although both programs are administered by the States.

The second major component of the "New Federalism" proposal involves the transfer of responsibility for more than 40 programs currently run by the Federal Government to the State governments and the establishment of a $28 billion trust fund that can be used by the States to fund those or other program activities. As proposed, the trust fund would consist largely of revenues from the windfall-profits tax on oil ($16.7 billion) and Federal excise taxes on alcohol ($6.1 billion), tobacco ($2.7 billion), and telephone services ($0.3 billion). The fund would become operational in FY 1984 and remain fully funded at $28 billion until FY 1987. Beginning in FY 1988, the Federal excise taxes would decrease by 25 percent per year until FY 1991, when all Federal excise (except for $0.02 per gallon of the gasoline tax) would be eliminated. As Federal excise taxes are reduced, the trust fund would shrink accordingly and States will have the option of expanding their tax revenues (by initiating similar taxes, expanding the tax base, or increasing the tax rate) to take up the slack, or they could reduce program costs.

Over 40 programs are included in areas to be transferred to the States: 1) social, health, and nutrition services; 2) local transportation; 3) community development and facilities; 4) revenue sharing and technical assistance; 5) education and training; and 6) income assistance. States will have two options. They can continue to receive Federal grants to support these activities and simply draw down funds from their trust fund allotment to reimburse the granting Federal agency. Alternatively, a State could withdraw or "opt out" of the Federal grant program participation and simply draw upon its trust fund allotment. In this case, the State could spend its share of funds on programs returned to them by the Federal Government or on any other set of activities its chooses. The trust fund would then become a type of "super revenue sharing" fund for the States.

An important feature of the turn-back is the city pass through. A variety of pass-through provisions for cities are contained in the proposal, but no city is guaranteed against a loss. If a State chooses not to participate in a Federal grant program that currently involves a direct Federal-to-city grant, then 100 percent of the funds must be passed through to local governments, although some intrastate redistribution would be allowed. If the State opts out of Federal programs that do not involve direct Federal-to-local subventions, the State is obliged to channel (at least) 15 percent of the funds to local governments based on the general revenue sharing formula. Moreover, if a State chooses to withdraw from a categorical program that currently involves a Federal-local relationship, the State would be required to set forth a plan that would include the proposed use of funds and the proposed local distribution. The plan would go into effect only after consultation with local governments and/or State-wide local government associations, and public hearings. After adoption, the plan would be filed with the U.S. Secretary of the Treasury.

A critical feature of the federalism proposals is the commitment to negotiate a rational and effective division of responsibilities, consistent with these principles, but acceptable to public officials. State and local officials are actively participating in a systematic review of the proposal's details to fashion an acceptable arrangement of programs to be devolved.

Under this plan, the Federal Government would be responsible for health and income maintenance programs for the elderly and the disabled, including social security, and health care for the poor of all ages. The States will assume responsibility for domestic needs that are growing much less rapidly, that have in most cases historically been State and local functions, and which even now are administered and largely financed by the States despite the proliferation of Federal grants.

Some of the programs to be devolved deal with physical facilities, such as airports, highways, mass transit, water and sewer, waste treatment, and community facilities, while others fund community and economic development activities, as under the Community Development Block Grant and Urban Development Action Grant programs. These programs produce benefits that are largely local or regional in scope and are properly within the domain of State and local governments. The discussion in Chapter One concerning the local nature of stree maintenance applies to all these functions as well.

Other programs to be devolved provide assistance for education and training and social, health, and nutrition services. These programs yield their maximum benefits if they are coordinated with the provision of income assistance, under such programs as AFDC and food stamps, to reduce dependence and increase employability for those capable of working. All these programs are aimed at people who are neither elderly nor disabled, and are physically capable of working and supporting their children. The necessary degree of coordination and integration, in conformance with local values concerning work and workfare, can be achieved only at the local level.

Block Grants

In the interim before these new federalism proposals begin to go into effect, the Administration intends to continue to combine categorical grants into block grants whenever possible and to draft regulations that give maximum discretion to State and local policy-makers in administering programs.

During 1981, 57 categorical programs were consolidated into nine block grants, greatly simplifying and rationalizing public assistance in such areas as preventive health (including rodent control), social services, alcohol and drug abuse, and low-income energy assistance. The block grants are designed to allow State and local governments the flexibility to create innovative programs tailored to their specific needs.

The history of one block-grant program is instructive. In the late 1960's Congressional and administrative actions accidentally created a loophole in Title IV of the Social Security Act that permitted States to pass 75 percent of the cost of social services on to the Federal Government. It rapidly became evident that social service "needs" were essentially limitless. Funding multiplied almost five-fold in just three years, from $354 million in 1969 to $1.7 billion in 1972, before the Federal Government called a halt.[a] It created a block-grant program, Title XX of the Social Security Act, with a fixed funding level. Funds were allocated to the States on a per-capita basis to be used at their discretion in consultation with local governments. By this action, the Federal Government reduced its susceptibility to the temptation to create yet another categorical program in response to yet another well-articulated need. Instead, it could refer petitioners to their respective States where the need in question could be weighed against all competing claims. It is the intention of this Administration to pursue a similar course.

Title XX in somewhat revised form is among the nine block grant programs proposed by this Administration and enacted into law, and it is among the programs slated to be turned back to the States along with revenue sources to finance them. It illustrates the basic principle that when resources are limited, as they always are, needs cannot be considered only on their own individual merits, but must also be compared with others. Priorities must be assigned, and overall service approaches must be developed that meet the unique combination of needs experienced by each State and community. Devolution of responsibility to State and local governments permits increased responsiveness to local conditions and increased accountability on the part of service providers to service recipients and to taxpayers alike.

More generally, block grants increase State and local flexibility and accountability. They eliminate the wasteful proliferation of administrative structures and paperwork and contribute to economy in government. At the same time, they permit State and local officials to experiment with new approaches, to adapt programs to local circumstances, and to target limited resources to needy areas and individuals. In some functional areas, the creation of block grants can be viewed as the first step in the eventual devolution of total responsibility for a function to the States along with revenue sources to support it. In other functional areas, however, some Federal involvement will continue to be necessary. For example, the Administration has no plans to turn back programs funding compensatory education programs for the disadvantaged and handicapped, higher education, Head Start, interstate highways, and certain regulatory programs.

States in a Changing Federal System

A proposal to return significant functional responsibility to State Governments is a controversial one. The active response of the Federal Government in many domestic areas was a reflection of the perceived failure or reluctance of State governments to take action. The general response of governors and State leaders to the challenge of returned responsibilities, however, is perhaps the clearest evidence of the dramatic changes that have overtaken State governments in the last two decades, and of the ability of the States to handle these responsibilities. The image of "sometimes" governments is largely an outdated one. While every State is different, the overall environment and capacity to provide a democratic forum in which public policy issues may be debated and decided is substantially changed.

For example, State legislatures were strengthened in the 1960's and 1970's. Twenty years ago, only 19 State legislatures met annually, and then they met for only a few months. Thirty-six legislatures now meet every year, often throughout the year; those few legislatures which continue to meet biennially are usually in special session in the off-year.[a]

Similarly, more and more legislators have become full-time public officials and are compensated accordingly. In State after State, men and women have chosen to make service in the State legislature a career, and with the rise of professional State legislatures has come the development of better legislative staffs and supporting capabilities.

Further, Supreme Court decisions in the 1960's, most notably Baker v. Carr in 1962, created more equitable geographical representation in the legislatures. With the rendering of the "one man, one vote" ruling, State legislatures soon became less rural oriented and more accurately reflected the concerns of the State population centers.[a] Their composition, interest, and values can be expected to be similar to those of the State's Congressional delegation.

Positive changes have also taken place in the executive branch. Governors are serving longer terms: 46 governors are now elected to four-year terms and in all but five States they can now succeed themselves.[a] With greater compensation and better staffs, furthermore, a governor can afford to serve for longer periods and also have more expertise at his or her disposal.

Since the mid-1960's, more than 40 percent of the States have reorganized their executive branches to modernize their management practices.[a] In addition, States and their governors have sought other methods to make the executive branch more efficient. In the same spirit of modernization, 11 States since 1963 have adopted new constitutions and many others have approved critical amendments; many of these revisions have given State governments more revenue-raising options.

As the U.S. Advisory Commission on Intergovernmental Relations (ACIR) noted in 1980:

> Over the past 20 years, significant changes have occurred in the nature and role of States in the Federal system. In every State, efforts were undertaken to promote greater efficiency, economy, and accountability by enhancing the authority of the Governor, the legislature, and the highest State court. The common themes were improved management, professionalism, and unshackling. Changes were both institutional and fiscal.[a]

In short, State Governments are different--far different--and more capable of meeting today's problems than they were in the 1950's and 1960's. But it is important to acknowledge that the outcome of public policy decided in 50 States will be far more diverse than that decided by a single, heavy-handed national government. The product of modernized constitutions, full-time legislatures, and more administrative capability will be highly customized, domestic programs, not replicas of their Federal predecessors. Such diversity should be welcomed as a source of strength and vitality, and the best way to assure the Nation's future.

CONCLUSION

The Administration seeks to reduce the influence of the Federal Government in domestic affairs so that other more effective centers of decision-making can flourish. Individuals, firms, and State and local governments, properly unfettered, will make better decisions than the Federal Government acting for them. Only State governments have the authority to correct the imbalances in the fiscal capabilities of local governments within a State resulting from inappropriate boundaries, inequitable allocations of functions, and inadequate tax bases. It is the State governments that are in the best position to encourage metropolitan-wide solutions to problems that spill over political boundaries, and to allow the creation of suitable neighborhood units of governance, where appropriate. And it is State governments that are capable of mobilizing the broad bases of support to tackle the economic, financial, and social problems that affect the well-being of the State as a whole as it competes with others to attract and retain residents and businesses.

As for the Federal Government, in the area of economic policy, the Administration will assist communities in anticipating and adapting to the changes brought about by innovations in technology, transportation, and communication. In the area of social policy, the Reagan Administration proposes to retain responsibility for income maintenance and health care for the elderly and the disabled, while assuming further responsibility for medical care for the poor. At the same time, it proposes to devolve to the States responsibility for income support and social programs that serve primarily those who are physically able to work and to support their children. In this way the States will have increased discretion to pursue policies, adapted to their circumstances, that increase self-reliance rather than dependence, increase labor-force participation among those able to work, and provide appropriate forms of supportive assistance to those in need.

In the area of housing policy, the Administration will rely upon private housing markets to provide sufficient supplies of housing and to remove inadequate units from the housing stock, and it will provide assistance in the form of housing certificates to households with insufficient income to afford decent housing. In the area of Federal grants-in-aid to State and local governments, the Administration will continue to combine categorical grants into block grants. It will pursue its federalism proposal to turn back grant-in-aid programs, along with revenue sources to finance them, to States and, through them, to their local governments, in order to separate national responsibilities from those that are State and local in scope, thereby permitting each level of government to do what only it can do best.

The virtues of federalism historically have been diversity, creativity, and heterogeneity. With States and localities as innovators, the opportunities for experimentation are multiplied, while the consequences of failure are contained. States and localities are likely to imitate one another's successes and learn from one another's mistakes. They are likely to tailor programs to local circumstances and to profit from the ingenuity of citizens stirred to action by the prospect of having some influence on the outcome.

The Reagan Administration intends to devolve the maximum feasible responsibility for urban matters to States and through them, to their local governments, and to limit Federal Government responsibilities to those matters where a clear national interest is at stake. Through this sorting-out process, the Federal system should become less "intergovernmentalized," and the citizens will be better able to hold their elected officials accountable. The Federal Government will be free to concentrate on foreign affairs and on those domestic activities that promote national economic growth and thereby increase the resources available to all levels of government and to the Nation's citizens and enterprises.

5/5/82

CHAPTER 4

IN SUPPORT OF URBAN LEADERSHIP

People pursuing their enlightened self-interest determine the well being of an urban area. Cities emerge and grow because a particular place has attractions to the early settlers. As long as the city offers a continuing opportunity for a satisfactory life, people will maintain and expand their tangible commitment to that city. They will live, work, and raise their families there only to the extent it offers sufficient job opportunities and a desirable cultural and social climate. If it fails to do so, the people who can will generally move on. Therefore, cities will prosper only if they continue to appeal to existing and potential residents, investors, consumers, employers and employees. No Federal Government programs can reverse the declining fortunes of a city if it no longer provides what free people want.

Many factors affect the decisions of individuals and firms to stay and invest or to pick up and leave. Some of these factors are purely local such as the quality of municipal and other local services, tax rates, physical and cultural amenities, and the responsiveness of local leadership. But many other factors are the result of forces beyond the city's boundaries. These factors include expanding and contracting markets for goods and services, some of them international in scope, and changes in the prices of the elements of production--land, labor, capital, and energy. They include technological innovations in production processes, transportation, and communication that alter the accessibility, desirability, and profitability of both domestic and foreign sites for various types of economic and social activities. Other important factors influencing private decisions involve changing personal preferences for the various combination of physical, cultural and recreational amenities offered by different sites.

As these factors change naturally over time, so will the actions of individuals and firms in response. Changes in these factors may in fact undermine the appeal of a city, leaving it vulnerable to decline. Throughout history, cities that failed to adapt to such changes have, in the long run, simply ceased to exist. Archaelogical finds serve as proof that some cities that were once thriving, major, urban centers failed to survive. Booming mining towns, whose prosperity rested on a single vein of silver, turned into ghost towns when the silver was depleted and the town could find no other reason for being. Today's cities are not exempt from these natural processes, and the Federal Government cannot be the life-support system for all urban communities. Cities are not guaranteed eternal life.

If no continuing appeal or useful role for a city can be found to sustain the city at its current population level, then the city will inevitably lose population until it reaches a new level and acquires a different role in its region. An absolute loss of people and jobs within a geographic area is not necessarily bad, although such change will be inconvenient for many and painful for some. These new circumstances will differ from the prior ones, but life in the changed city may be even better for the new or remaining residents. Change is inevitable, and it is better to embrace and guide it rather than to fight it.

In recent decades in the U.S., changes in major influential factors have resulted in substantial changes in the actions of people pursuing their interests. This has resulted in substantial shifts in population, jobs, and economic activity. The magnitude of these shifts and the speed with which they have occurred have generated demands for Federal assistance on the part of both losing and gaining jurisdictions. Boom towns want Federal aid to build their infrastructure quickly so as not to delay their growth, while declining cities want Federal aid to restore their infrastructure, in the hope that their prosperous past will be restored as well.

The Federal Government has unfortunately been all too quick to respond by creating ad-hoc programs to deal with specific problems, without considering the relationship of these programs to underlying economic and social processes. It seems to have been sufficient merely to discover a symptom and to announce a program to vanquish it, no matter how intractable or how poorly understood the underlying causes. Such programs demonstrated political concern for the problem, but often merely created the illusion--the costly illusion--that the problem was on its way to solution. Indeed, failure to solve the problem has been success, of a sort, insofar as failure has been used to justify a redoubling of effort and further expenditures. Had there been a little more humility about what the Federal Government could accomplish, cities and city dwellers would have been better off.

STRATEGIES FOR CITIES

In order to survive and prosper over the long run, a city must develop the ability to adapt to change. If the underlying reasons for a city's appeal and existence become obsolete, the city must find new reasons. The city's economy must retain the flexibility to respond to new opportunities as prior markets and opportunities become outdated. This ability to adapt to change requires a particular kind of local leadership. It requires public and private leaders who can think strategically about the future role of their city.

Thinking strategically involves asking fundamental questions about the realistic goals toward which the city should strive. What is the role that a particular city should play in its region and state? What is the economic, social, and cultural place of the city in its surroundings? What are the major elements of the city's appeal and how can these be maintained and improved? What basic changes are needed? What should be the functions of the local government itself?

In answering these questions, the strategic approach involves candidly assessing the external factors over which a city has no control, but which may threaten the continued appeal or prosperity of the city. Changing market demand may be imperiling the economic base of a city. Foreign competition or new technologies may also pose dangers. At the same time, the city must also recognize the external forces that are providing new opportunities. Changing markets, technologies, and social forces can offer new avenues for a city's economy and renewed vitality. Smaller families, changing family composition, fewer children, and two working adults per household means greater disposable income, less time available for home maintenance, less need to live in the suburbs and commute to the city, and therefore a greater desire for city living. These factors also mean fewer demands on local governments for schools and playgrounds, and greater demand for private-sector cultural and recreational opportunities.

In addition to this assessment of the external opportunities and threats, cities must also critically assess their own internal strengths and weaknesses. Even declining cities have latent strengths and competitiv advantages. They already have an infrastructure in place, which is to say that cities represent an enormous capital investment. They have buildings, streets, roads, sidewalks, bridges, and tunnels; they have in place water-supply systems stretching from remote reservoirs and aqueducts to local water pipes, they have sewers and sewage treatment plants. They have power lines, telephone lines, and gas lines. These are extraordinary physical assets whose value should not be discounted. And they are fixed assets--they cannot be moved. To reproduce them elsewhere, on undeveloped land, would be enormously costly.

Cities also have an already developed social and cultural climate. They have theaters, art museums, fashionable shops, restaurants and other cultural amenities that attract both tourists and residents. High population densities allow activities within cities to take advantage of economies of scale. Moreover, cities are naturally energy efficient because the concentration of residents and work places is conducive to energy-efficient transportation, housing and other activities.

Beyond these obvious assets, cities represent a huge human investment. They are located in the midst of a pool of skilled and talented human beings. They may have a tradition of strong civic pride and leadership, and amicable relationships among all sectors of the populace.

Beyond these general strengths, each city has its own comparative advantages in particular areas of economic activity, arising from its unique combination of economic, social and geographic resources. There is some productive role for the residents of every city. Because of its location as a major port, one city may be particularly suited to international trade, finance, and communications. Because of its proximity to raw materials, another city may be well-situated for heavy manufacturing. Because of the high education levels of its residents, another city may be particularly well suited to high-technology industries.

On the other hand, each city has unique weaknesses as well. It may have a poor public school system, or no higher education facilities. It may have a history of municipal mismanagement. It may be overly dependent on a single firm, the last manufacturer of hula-hoops. Or perhaps the city is located on an eroding barrier island, or suffers periodically from droughts, floods, hurricanes, or tornadoes.

In evaluating the strengths and weaknesses of a city, the areas of comparative advantage hold the key to the future role of the city.

Thinking strategically means developing ways of allowing these areas to flourish. This need not involve a detailed blueprint, but it means developing a broad strategy which at the same time capitalizes on the comparative strengths, is consonant with the opportunities afforded by the external factors, avoids the external threats, and shores up the city's critical internal weaknesses, while advancing the city toward its goals. Implementing the strategy is a matter of making suitable public investments, encouraging private investments that are consistent with the strategy, creating appropriate new institutions where necessary, and undertaking local programs directed toward the city's goals.

The key to the long-term success of a city is local leadership and its ability to devise a suitable strategy that will enable the city to adapt to changing circumstances and opportunities. It is the success of this effort that will determine whether a particular city will prosper over the long run. Such success clearly cannot be provided or guaranteed by the Federal Government. As a practical matter, due to widely different conditions from city to city, only local business, government and civic leaders can determine what course is best for their city. In a free society, the Federal Government clearly cannot dictate such courses. The responsibility for the long-term survival and success of a city, therefore, lies with the city itself. If no continuing appeal or useful role for a city can be found, then the city will inevitably decline.

Examples of Strategies for Cities

Dallas offers an excellent example of local leaders developing a far-reaching strategy that has helped advance that city's future. The "Goals for Dallas" project, organized in 1966, gradually brought together thousands of leaders of the community to create the city's future. Seventeen task forces have been guiding a broad spectrum of actions to achieve the goals set forth. Major elements of the strategy that have already been achieved include a first-rate international airport so that Dallas is poised to become an international business center, a network of higher education facilities to put the city firmly in the high-technology and knowledge industries,[1] a major regional health center to enhance the city's attractiveness to potential newcomers who demand the best in medical care for themselves and their families, and a multi-level transportation system in the downtown area so that the city's growth would not be stifled by congestion.[2]

Other cities that have made noteworthy efforts to develop comprehensive strategies include Eugene, Oregon, and Paterson, New Jersey, while San Francisco has just started such an undertaking. Eugene's experience is particularly significant because it involved a major change of goals. In its struggle to sustain the vitality of its downtown economy, the city's goal was to attract and retain retail development in the downtown area. As had been the case in many cities, however, the flight of retail developments to competing shopping centers had seriously threatened to destroy economic life downtown. Starting in the early 70's, a major redevelopment project, including building an attractive mall, was able to retain most of the major retailers and to attract a number of smaller retailers, but repeated and intensive efforts to attract and hold major department stores had failed. Substantial increases in parking facilities, writedowns of land cost for store sites, and tax benefits had not removed the threat of departure of some of the major retailers. Eugene needed to adopt either other strategies or other goals for downtown.

Ultimately, the painful decision was made to leave major department store development to the shopping centers and to allow the downtown business district to develop as (1) a civic, legal, and financial office center; (2) a cultural, recreational, and entertainment center; (3) a specialty store and service center; and (4) a mixed, high-density residential commercial area. To accomplish this, the priority project became to create a downtown performing arts center with five objectives in mind for it: (1) to serve the cultural and recreational needs of the community; (2) to add needed economic vitality to the downtown; (3) to attract hotel development; (4) to diversify the economy by bolstering tourism; and (5) to double the effective period of operation of the downtown economy from 8 to 16 hours per day.[3]

Leadership for the Long-Range

Local leaders naturally include mayors and other local government officials. But they are only part of the picture. Other sources of leadership are at least as important, as is explained below. They include the city's business sector, and also foundations, universities, various civic associations, neighborhood organizations, and charitable and religious institutions.

Developing and implementing an effective strategy require drawing upon all these possible sources of local leadership. In fact, leaders from this vast, non-governmental sector are indispensable to the success of the effort. This is so not because there are talented leaders to be found here, although this is self evident and they are a vital asset. Nor is it because a successful strategy requires a broad-based coalition in the community, although this alone might be reason enough to desire their participation. Nor is it based on the erroneous belief that people in the private sector are somehow superior to those in the public sector; they are not. Nor, finally, is it because of a feeling of shared concern and mutual good will, although this, too, is important.

The most important reason why private-sector leaders are absolutely necessary in this effort is because they are more likely to provide a longer term viewpoint than elected local officials. The latter are generally forced by the political process to focus primarily on shorter term issues. But developing a strategy for a city requires a long-term outlook, well beyond the next election. Long-term economic, social and technological trends have to be examined to uncover threats to the city's fundamental appeal and its reasons for existence, and to discover new opportunities. It is necessary to assess the impact of city policies on the long-term prospects for the city's economy, its housing stock, the municipal budget, and the quality of life.

Shrewd political leaders recognize that they have natural allies who can enable them to withstand short-term political pressures that may threaten the future well-being of their city, and who can help provide the long-range view that may otherwise be lacking. Anyone with a long-term stake in the city would be such an ally. Businesses with sunken capital investments in a city are one group of such allies, including utilities which--unlike manufacturers--cannot pick up their plants and move, but also including banks, retail firms, and others who would lose current markets if a city declined. Property owners in a city are another such group; if a city declines, so will their property values. Universities and medical centers, whose broad geographic appeal and continued vitality depend on the quality of life in the surrounding city, are further potential allies. Local religious institutions are tied to a city and have a critical stake in its survival. Strategic leadership involves mobilizing these potential allies.

GOALS AND MEANS

There are certain basic strategic goals which are applicable to virtually all cities. These goals are to:

1. Stimulate the city's economy to achieve its maximum potential

2. Balance revenues and expenditures

3. Improve the quality of life

These goals are interconnected in various ways. For example, improvements in the quality of life will make it easier to enhance economic performance, which in turn will make it easier to balance revenues and expenditures. In order for a city to prosper over the long run, it must achieve all three of these goals. Consequently they are of relatively equal importance. Potential city policies should be evaluated for their consistency with all of them.

One approach to solving urban fiscal problems, which involves raising taxes and cutting back essential services with no alternatives to pick up the slack, clearly fails this test. While such a policy may help balance the budget in the short run, cutting back on services in this way will reduce the quality of life in a city. This and the higher taxes will encourage the continued exodus of the middle class, which will further weaken the city's economy. Ultimately, these factors will preclude the city's achieving its original goal of a balanced budget.

These three interconnected goals, and possible means for achieving them, are discussed below. The discussion represents a distillation of the successful practices of numerous local officials throughout the country.

Stimulating the City's Economy

Local leaders can revitalize a city's economy by creating a climate that nurtures new businesses and encourages existing ones to stay and expand. This involves providing various kinds of incentives and eliminating disincentives and barriers to economic activity.

The Administration's economic recovery program offers the base for a strong local economy. While the program is not intended nor expected to perform miracles in the short-run, it surely provides the necessary foundation for stable, long-term, nationwide, economic growth. City efforts, to be most effective, should complement rather than counteract this program. This means that cities should reduce taxes wherever possible, eliminate burdensome regulations that are not absolutely necessary, and establish a climate that makes people want to invest and to commit themselves to the area.

Despite the all-too-commonplace image of the big corporation moving out of the city and taking its jobs with it, few jobs are lost to cities because of businesses moving out. This is documented in a series of recent studies[4] which show that less than one-half of one percent of all job changes are due to business migration. These studies also show that the loss of jobs in urban areas is not due to the failure of existing businesses. This failure rate, in fact, is even higher in booming cities, such as Houston, than in declining cities, such as New York.

The real reason for the loss of jobs and the decline in economic activity in some cities, these studies show, is that the birth rate for new businesses in these cities is so much lower than in booming cities. Houston's high business birth rate more than offsets its high failure rate, so that Houston continues to grow. New York's relatively low birth rate leaves it steadily declining as some existing businesses naturally fade away.

Cities have traditionally served as incubators for new businesses started by small entrepreneurs. Three-fourths of the net new jobs created nationwide, and virtually all of the net new jobs in the Northeast, are created by these firms. Declining cities need to re-establish this incubator role. This can be accomplished only by establishing within the city a free-market climate that will encourage entrepreneurs to take their risks there.

Tax relief. It may seem courageous to reduce city taxes when city budgets are already strained, but there are undoubtedly numerous individual circumstances across the country where particular city taxes are so high that they are counterproductive. That is, the high tax rates discourage so much of the taxed activity that less revenue is actually raised at the higher rates than would be raised at lower rates. This was the experience at the Federal level with the capital-gains-tax reduction of 1978. The top capital-gains rate was cut almost in half, and rates were reduced across the board by 25 percent, but capital-gains-tax revenue increased in the following year by a record 22 percent. In circumstances like these, tax rates could profitably be reduced.

Regulatory relief. Too often, cities have imposed unnecessary regulatory burdens on their economic communities. Fortunately, regulatory relief does not entail any monetary cost to the city; it requires local leadership and a sense of the relative costs and benefits of regulation.

One example of harmful regulation is rent control. Such control has led to undermaintenance of the housing stock in many communities, thereby contributing to deterioration, while at the same time discouraging new construction of rental properties and discriminating against new tenants. The eventual result of such controls is a perpetual housing shortage, with deterioration spreading throughout the inner city.

Another example of such regulation is occupational licensing laws. These prohibit individuals from engaging in certain occupations unless they have a license from the government. While such restrictions may be justified in areas such as medicine, where they are necessary to protect the public health, these laws are often extended unnecessarily into other areas merely to restrict competition. For example, in some jurisdictions licensing may apply to barbers, beauticians, real-estate brokers, taxicab drivers and pool cleaners, to name just a few. Reducing the supply of providers in this way increases costs to consumers and unfairly raises the returns to established individuals in the field. It restricts the supply of jobs and reduces employment opportunities. These laws are particularly harsh on the poor and unemployed, who are thereby prevented from entering established occupations.

Zoning laws are another set of often unnecessarily restrictive regulations. By restricting the uses to which property can be put, these laws often prevent property owners from devoting their property to its most productive use. Many potential entrepreneurs may be prevented from going into business altogether because of such restrictions. The result is not only reduced property values, but inefficiency and misallocation of resources. Zoning restrictions can be eased to encourage economic activity. Going even further, deed-based convenants and insurance laws can be considered as alternatives to zoning; Houston, the Nation's fourth largest city, follows this approach.

Yet another web of unnecessarily entangling local regulations stems from building codes. These regulations, though well-intended, often impose heavy, unnecessary costs on businesses and developers, thereby thwarting economic activity. The regulations in many cases are poorly suited to the particular circumstances of businesses or developers, who could achieve the same result through a cheaper, alternative method. Moreover, the codes are often outdated, requiring the use of archaic and unnecessarily costly methods and materials, and inviting corruption. Featherbedding requirements are also often included in the codes, again unnecessarily increasing costs. Major improvements are clearly possible, and have been instituted by many cities.

Besides these examples, there is a whole range of unnecessarily intrusive regulations such as usury laws, price controls, permit requirements, and central planning regulations which generally add to local burdens while often failing to accomplish any public purpose.

Other measures. Cities can take other measures to improve their economic climates. A city could sell its unused, municipally owned properties to bring these properties into productive use, creating new jobs and adding to the tax base. The city can also allow homesteading or shopsteading on properties it has obtained because of tax arrearages. This would allow an individual or firm to take over an abandoned property for a nominal fee, and if the individual resided on the property, or operated a business there for a certain period of time, he could eventually become the outright owner. In particular, lower income individuals without investment funds could obtain ownership interest in this manner through the use of "sweat equity."

Enterprise Zones. Cities can try out all of these ideas in an advanced and concentrated form by establishing Enterprise Zones. Through participation in the experimental Federal Enterprise Zone program, cities can obtain similar contributions for their zones from the Federal and state levels. But city officials do not have to wait for Federal designation before utilizing the Enterprise Zone concept within their communities. Cities can go ahead and establish Enterprise Zones on their own, or in conjunction with their state governments, applying appropriate incentives. Cities and states with already developed Enterprise Zone programs will have a head start in competing for Federal Enterprise Zone designation over those cities and states that have not yet passed their own authorizing legislation.

The basic concept behind Enterprise Zones is to create an open, free-market environment in the Nation's economically depressed areas through reduction of taxes, regulations, and other government burdens on economic activity. This can be accomplished by designating the boundaries of an Enterprise Zone to cover an economically depressed area of a city and providing for the special incentives to apply within the zone. The reduction of government burdens within the zone will create and expand economic opportunities, leading to the creation of jobs and the redevelopment and revitalization of the geographic zone area itself.

Through their Enterprise Zone programs, cities can experiment with the provision of traditionally municipal services by alternative, private-sector providers. This would eliminate the problems associated with monopolized government services and enable cities to take advantage of competitive forces in the private sector.

Another element which can be included in an Enterprise Zone program is participation by private-sector, neighorborhood organizations; they can serve as conduits for participation by zone residents in the economic success of the zone areas, and can also serve as focal points for volunteer, self-help efforts.

The combination of all these elements can create the environment necessary to revitalize and redevelop our Nation's distressed urban areas.

Many central urban areas will probably never again see the concentration of large-scale manufacturing that they had in the past. The decentralization of formerly concentrated retail functions is also unlikely to be reversed so long as most Americans have the income and mobility to exercise a wide choice in housing preferences. But these changes can be viewed as opportunities rather than as problems. In a post-industrial economy, the central office and information-exchange functions are likely to grow rather than diminish. If proper policies are pursued, the city will still be the most hospitable locus for innovation and formation of new enterprises. By pursuing the strategies and policies discussed here, cities will enable their economies to adapt most rapidly to fundamental economic trends, capitalize on emerging opportunities, and make the changes necessary for a prosperous future.

Balancing Revenues and Expenditures

For the long term health of a city, balancing revenues and expenditures is essential. City residents can always avoid the burden of city debt simply by moving. If a city's debt becomes too onerous, therefore, the residents will leave, with nothing but a ghost town remaining as collateral for the unpaid debts.

Reducing Expenditures: Selective Pruning. The most promising avenue for balancing city budgets is through reducing expenditures. There are a number of ways this can be done. One is by eliminating those government services that are not absolutely necessary; this is known as "load-shedding." It can be accomplished where there are viable private sector alternatives, for example, where municipal hospitals duplicate services that are already being performed well by the private, voluntary sector. City day-care services institutionalize a function which has traditionally been performed well on a voluntary basis by relatives or friends or through community organizations. Many recreational facilities, such as tennis courts and swimming pools, are provided by private organizations, both profit-making and voluntary. These and similar services are candidates for "load-shedding."

Reducing Expenditures: Improved Personnel Management. Another area of major potential savings is labor management and civil service reform. Selective reduction of overly large work forces is one important approach. For many city functions the work load has declined along with the population, but the work force has not been reduced proportionately. Major reductions in expenditures can be achieved by better matching the work force with the work load.

Too often, reductions in the work force are accomplished through attrition, which causes personnel cuts to occur randomly by function and culls out the best people, who can get jobs elsewhere. Forced early retirement, another approach, is fundamentally unfair, as older workers who are forced out may be better than younger ones who are retained. The most common method is by blindly laying off these workers with the least seniority--an approach that often disporportionately eliminates Black and other minority workers, and women. Ideally, layoffs should be carried out according to merit--by discharging the least productive workers, not the oldest or the newest. New York City has shown that the threat of firing malingerers who abused its generous sick-leave policies resulted in rapid cures and a sharp reduction in absenteeism.

Still another way for cities to regain control is by reforming civil service systems. To restore merit to the system, changes in testing, selection, and promotion policies and an expanded ability to hire from outside the system are needed. Promotions, raises, and bonuses should be more closely related to performance on the job. Nothing is more demoralizing for an outstanding public servant then to be passed up for promotion in favor of someone who has more seniority or is a better test-taker. Effective procedures for evaluating employees have to be instituted. Managers and supervisors could be required to rank their subordinates, and cash bonuses could be given only to the top-rated fraction of the work force. Fair, simple and effective procedures have to be adopted to allow discharge of unsatisfactory ones. Finally, some localities are giving serious consideration to eliminating civil service coverage of employees who are in collective bargaining units, for this is a redundant system of employee protection that does not benefit the public.

Basically, many cities need modern personnel-management systems instead of merely relying on procedures for administering civil service rules and regulations. Such systems could be used to rationalize municipal work--changing inefficient practices, enhancing productivity and creating a satisfied, stable, skilled, and dedicated work force. The efficiencies garnered through these changes allow cities to reduce costs and expenditures.

To complete this rationalization process, more than civil service reform may be needed. Many archaic staffing requirements or costly, unnecessary work patterns may have to be changed. Boston's transportation authority recognized that rush-hour travel needs can best be handled by utilizing more part-time workers and fewer full-time ones. Many local government activities share this "peak-load" characteristic; large savings are possible with no reduction in the level of public services.

Reducing Expenditures: "Privatization." Cities can often reduce expenditures dramatically, while maintaining services, by privatizing--that is, utilizing the private sector to provide municipal services, where feasible.[6] While government often must arrange for services, it need not produce those services; The producer can be a private-sector firm, or even another governmental entity, as in the Lakewood Plan in California.[7]

The profound advantage of this approach is that, when properly carried out, it substitutes competition for municipal monopolies. Competition can be introduced through several different mechanisms.[8] One of the most popular is "contracting out," in which local governments contract with private firms to provide services formerly provided by municipal agencies. The contracts are granted on a competitive basis to the private firm or institution that offers the best price and quality of service. Municipal agencies could be allowed to compete for the contracts as well as private firms. This would give these bureaucracies the same competitive spur which usually exists in the private sector.

A contract could cover the entire city or only portions of the city. If the contracts were awarded on a neighborhood by neighborhood basis, some could be awarded to private firms and some to the municipal agency. The public and private sector would then co-exist side by side as a constant competitive check on each other. Each would each provide a yardstick by which to measure the performance of the other. Among the better known cities that are following this approach and cutting their costs by up to 50 percent are Kansas City, Missouri; Newark, New Jersey; Minneapolis, New Orleans, Oklahoma City, Montreal, and Buenos Aires.[9]

Another means of introducing competition is through associations or organizations of neighborhood residents, businesses and merchants. More and more cities are contracting with such neighborhood organizations to provide selected services, at substantial savings. Some states now permit neighborhood units such as these to create special assessment districts, which can levy a special tax in that area to pay for local services whose delivery is arranged outside the normal municipal monopoly.

Through the use of these mechanisms, cities can often reduce costs by 20 to 50 percent by introducing competition while maintaining service quality and quantity. Numerous studies throughout the U.S. and abroad of residential refuse collection, for example, found that service by city agencies is 14 to 43 percent more expensive than by private firms, yet is no higher in quality or in citizen satisfaction.[10] Gainesville, Florida, is saving taxpayers more than $500,000 a year by contracting with private companies for trash pickups, vehicle and fleet maintenance, and janitorial and custodial services. The city manager reports that citizen complaints have dwindled and out-of-service time for vehicles has been drastically reduced.[11] Another example is Scottsdale, Arizona, which is well-known for its privately-run fire department. Scottsdale fire fighting personnel have developed a unique fire fighting apparatus, admired and copied by other cities.[12] The Mayor of Providence, Rhode Island, is saving his city millions of dollars through privatizing public services.

These mechanisms are in far greater use than is widely recognized. In a survey of 2,375 cities with populations over 2,500, it was found that 21 percent of the cities contracted with private firms for refuse collection, 13 percent contracted for street-lighting repairs, and 11 percent for engineering services.[13] Contracting out is used for dozens of other services such as street paving, tax assessment and collection, zoning control, snow removal, payroll processing, ambulance service, solid waste disposal, bridge construction and maintenance, voter registration, and the operation of senior citizen centers. The U.S. Advisory Commission on Intergovernmental Relations tabulated 66 services that are provided by cities contracting out with private firms.[14] More and more cities in the U.S. and in other countries are selectively "contracting out" for the delivery of public services.

Tax Reform. On the revenue side, there are a number of adjustments which cities could make to rationalize their tax systems. These adjustments may yield increased revenues, although these changes could be justified primarily on grounds of efficiency and capacity.

One such change is to rely more on user fees for the financing of services, where feasible. It is fair that the beneficiaries of a service pay for it. Relying on this revenue source would relieve pressure on more traditional city revenue sources, such as property taxes. Moreover, it would make the full cost of the service readily apparent to consumers, and would induce them to conserve. Moreover, it may allow consumers to compare the service with private alternatives and to opt for the latter if they so choose.

Another rationalizing tax adjustment is site-value taxation. This involves changing a city's property tax structure so that the tax is assessed more heavily on the underlying land and less on the developed structures on the land. With the tax burden on the development of land reduced, and the cost of holding land idle for speculation increased, development of unused or underutilized properties within a city would be encouraged.[15] The increased development is likely to result in increased property tax revenues, although this need not be the reason to use it. This intent is rather to redistribute the existing property tax burden.

Finally, cities, in concert with counties and states, may wish to develop mechanisms for taxing out-of-town commuters and others in the surrounding area who depend on the existence of the city and consume some of its services but currently contribute little or nothing to its maintenance. A commuter wage tax would address this problem, but might further encourage employers to leave the city. User fees would help in many instances, since those outside the city would have to pay for the services they consume, however, some form of regional taxation, or regional revenue sharing, may be appropriate.

Improving the Quality of Life

The chief and most direct contribution of a city government to the quality of life within the city is the set of municipal services it provides. If these services are poor, visiting and living in the city will be less pleasing, and both tourists and residents will be driven away over the long run, and so will businesses and jobs.

The major way in which a city government can improve the city's quality of life, therefore, is to improve the quality of its services. The emphasis in past efforts at service improvement has been in such areas as better public administration, pre-service education, in-service training, civil service reform, budgeting reforms, computers, quantitative methods, reorganization, organizational development, incentive systems, productivity programs, joint labor-management committees, and the like. All of these are desirable and effective, but even more can be done through basic structural changes in the provision of services. Introducing competition and private-sector providers through the mechanisms noted above is a proven way to improve local services. The cost savings can mean additional resources to raise the level of such services. Competitive forces are likely to lead to greater innovation and modernization in the provision of the services; and these same forces are also likely to lead to greater responsiveness to consumer needs and preferences.

In the currently troublesome area of infrastructure needs, special attention and efforts may be necessary. After years of neglect of infrastructure needs, many of the Nation's old industrial cities--such as New York, Chicago, Pittsburgh, and Cleveland--are now establishing strong capital rebuilding plans, with special revenues earmarked for this purpose. Cities are concentrating their available resources on preserving existing basic infrastructure, rather than on building new facilities. For example, whereas in the early 1970's 30 percent of New York City's capital budget was for existing facilities and 70 percent for new projects, in the city's present five- and ten-year capital plan these proportions are exactly reversed.

An innovative means of financing capital equipment is leasing it from private sector owners. This possibility was made economically desireable by changes in the tax code enacted as part of the Economic Recovery Act of 1981. Under a typical leasing arrangement, the private owner would benefit from the investment tax credit and accelerated depreciation on the capital equipment. These advantages could allow the lessor to provide savings to the city on the rentals, and on the ultimate purchase price if the city chose to purchase at the end of the rental period.

In one of the first examples of this financing arrangement, in the fall of 1981, the New York Metropolitan Transit Authority signed an agreement under which a private firm will purchase 620 buses and twelve commuter rail cars and lease them to the Authority. Lease-purchase agreements have been used for other capital items, principally office buildings and revenue-producing facilities. The same arrangement could be extended to a broader range of public facilities: private investors could build roads, sewers, bridges, auditoriums, or fire houses and lease these facilities to a local government for a fixed period of years. At the end of the period, the local government could assume ownership.

PUBLIC-PRIVATE PARTNERSHIPS

A key tool which local leaders can utilize to implement their strategies is the organization of public-private partnerships. These involve coordinated efforts between city officials and private sector organizations to undertake specific projects or programs to improve the local community.

The most complex partnerships are joint development ventures in which both partners commit themselves to specific responsibilities. Hartford, Connecticut, and the Aetna Life and Casualty Company jointly financed and constructed Hartford's civic center. In Baltimore, local business leaders joined the city in planning and executing two downtown residential/commercial developments, Charles Center and Inner Harbor.

The Allegheny Conference for Community Development in Pittsburgh was one of the first economic and community development business groups formed in the post-World War II period. In cooperation with political leadership in the Pittsburgh region, it initiated numerous economic and community development programs. Such programs included a regional industrial development corporation, a city redevelopment authority, and other quasi-public organizations to improve such things as air quality, housing, and sanitation.

Minneapolis exemplifies the tradition of corporate leadership working with the city to improve urban amenities and encourage redevelopment. Leading business firms have committed five percent of their before-tax profits for public purposes. The Downtown Council, a private organization of business leaders, encourages and helps coordinate central city improvements. Through the Council, private companies have financed architectural planning for many public and private projects. These activities are coordinated with and approved by the Minneapolis Industrial Development Commission, a public agency responsible for overall city planning, financing, and construction of private and publicly subsidized facilities. The nine-member commission is comprised of seven business representatives and two public officials appointed by the City Council.

In many cities the major public-private organization for economic development is a nonprofit quasi-public development corporation that allows redevelopment or building renovation to take place with the assistance of tax incentives and financing aid from the public sector. The Dayton City-wide Redevelopment Corporation, the Greater Buffalo Development Foundation, and the Milwaukee Redevelopment Corporation are among the better known urban corporations of this type. But most major cities and many smaller cities have established development corporations.

Further examples of successful public-private patnerships can be drawn from all across the country. In Detroit, a private consortium including the Ford Motor Land Development Corporation, 50 other corporate partners, 28 banks and four life insurance companies joined with the city to build Detroit's Renaissance Center. The private partners assembled the land, provided the financing, and formulated the development plan, which included hotel space, office space, and retail and service facilities. The city provided zoning relief and vacated city streets.

In Dallas, the Woodline Development Corporation, with financing from Equitable Life and First National Bank of Dallas, joined with the city to coordinate the building of a 50-acre downtown development. The private entities contributed a Hyatt Regency Hotel, a 50-story office tower, some roads, some utilities, and 20 acres of land. The city contributed the Municipal Sports Arena, the restoration of the Union Terminal Building, a road network, parking, some utilities, and 33 acres of land. Among the benefits were 425 construction jobs, 800 hotel jobs and a 2700% increase in the tax base.

St. Paul joined with Oxford Properties, Inc. to construct a downtown development including two office towers, a major retail shopping center, and a luxury hotel. The city prepared the development design, built an indoor park and public walkways and skyways, vacated a major downtown street, granted building permits, and negotiated with tenant groups to obtain their cooperation. The private sector provided financing and built the office towers, shopping center and hotel. In other activities the city has initiated public improvements which are financed half by the city and half by private firms.

Pittsburgh recently initiated a series of similar projects. Development of the Grant Street Plaza complex is being undertaken by a partnership between the U.S. Steel Corporation, the Port Authority Transit (PAT), the Urban Redevelopment Authority (URA) and the City. The complex will include construction of a 53-story office building, a shopping center, and the main subway terminal in the central business district. U.S. Steel will construct the office building and shopping center, PAT will construct the subway terminal, URA will restructure land parcels between the public and private sector, and the city will redesign and reconstruct streets. In another project, the city and URA will join with PPG Industries, Inc. to build PPG Place, a 40-story office complex with six structures, including shops, restaurants, open plaza, and winter gardens. PPG will construct the office complex, URA will assemble land under its powers of eminent domain, and the city will encourage community support. In still another project, the city and URA are joining with Vista International to build a 20-story hotel and 31-story office complex.

In exchange for city support in its construction of a $50 million silicon-wafer manufacturing plan, Wacker Siltronix Corporation agreed with the city of Portland, Oregon to accept graduates of city training and placement programs as the source of 450 new employees. These 450 positions were filled upon the opening of the plant. Portland has also rehabilitated its older housing stock in conjunction with different private-sector partners. In return for such rehabilitation, the city provides various tax incentives, including freezing taxes for 15 years on rehabilitation of a building on the National Register. To improve the climate for private development, the city is undertaking efforts such as importing old steetcars from Portugal for use in its light-rail rapid transit system, reopening an historic tavern that had been shut down, and replacing some of its asphalt streets with cobblestones.

The City of Boston joined with the Rouse Corporation to carry out one of the city's most successful public-private partnerships--the development of Faneuil Hall Marketplace. The city was particularly instrumental in winning reluctant financial support from the banking community for the project. Boston's Neighborhood Improvement Program has been successful in drawing over $60 million in private sector investment for housing rehabilitation. In addition, Boston has embarked on a "Neighborhood Confidence Project" designed to provide information to residents, potential residents, banks, and real estate firms in an attempt to show the positive side of the city.

In Los Angeles, joint development projects between the Community Redevelopment Agency and several of the largest North American development firms have been translated into a billion dollar mixed-use project for the city. In particular, a new convention center and a Hyatt Regency Hotel built in 1974 have spurred business activity in the 7th Street area. The Regency Hotel now forms the basis of a Broadway Plaza which includes a department store, several retail shops and an office tower. Bunker Hill is the site of a rejuvenated residential area. For example, one residential complex was formed as a result of a joint effort between the CRA and large private sector firms and is now a 136-acre residential community.

One of the most comprehensive public-private partnerships has been the effort to revitalize downtown Toledo, and it merits an extended description here. The effort began in the summer of 1977 when Owens-Illinois, the city's largest corporation, announced plans to construct in downtown Toledo a $94.5 million office complex, Sea Gate Center, where the corporation would locate its new world headquarters. In January, 1978, the city's largest bank, Toledo Trust, committed itself to building a new $10 million headquarters in the same area. In order to nail down these investments, the city committed itself to financing a 15-acre public park along the entire downtown riverfront, a public parking garage, a boulevard connecting two of the main avenues, and other downtown street improvements.

These initial efforts led to broader revitalization efforts. Early in 1978, the city established the Toledo Economic Planning Council (TEPC), with the Mayor appointing the president of Toledo Trust as chairman. The Council included members from the business community, city and county government, the University of Toledo, labor organizations, and development groups. The function of the TEPC is to bring together public and private representatives to develop long range strategies for maintaining and improving the city's economic health.

The TEPC and Toledo Trust soon planned the development and financing of further downtown revitalization. Plans are being implemented for the construction of a $60 million government office tower and $13 million in renovations in the central business district, including reconstruction of a historic block called Fort Industry Square into new offices, shops, and a fine old restaurant. Toledo Trust in conjuction with two other banks also developed a $2 million loan pool to provide low-interest financing for small businesses to rehabilitate downtown buildings. As a result of the renewed interest in the area stimulated by these activities, another $400 million in construction in downtown Toledo is expected over the next few years.

But TEPC also felt that this downtown recovery would not be lasting unless the more residential neighborhoods around the central business district were also revitalized. Consequently, the Council focused on the poorest of these neighborhoods, the Warren-Sherman area, for a concentrated redevelopment effort which can serve as a model for the rest of the country.

Warren-Sherman has an area of 300 acres adjacent to Toledo's downtown. The population is 3,500, down from 6,500 ten years ago. Unemployment is 32 percent, with 40 percent of neighborhood family incomes below $5,000 and over 60 percent below $10,000. Almost 20 percent of the land in Warren-Sherman is vacant. The area suffers from high crime and deteriorated housing.

The TEPC first consulted with the residents of Warren-Sherman to determine their needs and goals. Such early and continued local community involvement has been a key element of the effort. Based on this input, the TEPC, the city and the business community developed a broad range of coordinated programs to help the area.

To stimulate business and industrial development, Control Data Corporation's City Venture agreed to build a Business and Technology Center in the Warren-Sherman area. The Center will be built in a large, old factory building and will provide to tenant-entrepreneurs office space, computer facilities, laboratories, an answering service, financial and management consulting advice, and other education and support services. City Venture operates a number of these centers around the country with the intention of eventually making a profit from their operation.

The TEPC has also undertaken development of a 23-acre Industrial Park in the area and plans to require tenants to make substantial commitments to hire Warren-Sherman residents. Commitments have already been received from Libby-Owens-Ford, Owens-Illinois, Sheller Globe and Toledo Testing Lab, Inc. In addition, plans have been finalized to build a $3 million, 50,000-square-foot shopping center in the neighborhood. The center should also increase employment opportunities for Warren-Sherman residents. Toledo Trust has committed $1 million in loans to the shopping center project and $1 million for loans to small businesses and commercial ventures.

In order to provide job training and education, City Venture has agreed to establish a Fair Break program for Warren-Sherman residents. Under this program, 160 students will work in part-time local industrial jobs found by City Venture. They will spend four hours on the job and four hours in a computer-based learning center. City Venture will then place these trainees in jobs or give them more training when classes end.

Other job training programs will include the establishment of a community learning center. The center will utilize Control Data's computer-based educational system. Training for neighborhood residents in the construction trades will be sought through the unions; contractors working in Warren-Sherman will be encouraged to hire residents as appointees; and a property management and maintenance company will be established to train and employ residents. A job bank will also be created, and the Ohio Bureau of Employment Services will work with the city's affirmative action program and City Venture to develop a program specifically for Warren-Sherman residents.

The TEPC is also arranging for business enterprises to be established in Warren-Sherman which will offer to hire large numbers of workers part-time. Many residents may find full-time employment impossible because of family responsibilities, but this effort will provide them with employment opportunities. Child care, transportation, employee counseling and other programs are also components in the plans to provide employment opportunities for the citizens of Warren-Sherman.

To provide housing, City Venture has agreed to find developers to construct a cooperative of 100 units of low to moderate housing. The TEPC is also seeking to create a neighborhood-based company which will manage, rehabilitate and develop housing. Toledo Trust has committed $1 million for mortgage loans for Warren-Sherman. The city is also planning a five-acre park in the neighborhood which will contain field space and landscaped areas.

Through these various efforts, Toledo has established a complex web of public-private relationships providing a comprehensive approach towards stimulating urban revitalization. These efforts offer substantial possibilities for fundamental and lasting success.

Many more examples could be provided, as the potential public private partnerships which can be undertaken to improve the quality of life in a city are virtually limitless. These partnerships are unique vehicles for bringing together resources from throughout a city to deal with specific problems or needs. The private sector brings to local partnerships the entrepreneurial creativity, the practical business experience, and financing potential of developers, executives, investors and lenders willing and able to assume risks. The public sector brings knowledge of the broad public interest, familiarity with problems and needs, and municipal powers. Together, and with imagination, they can do much to improve life in the city.

THE ROLE OF NEIGHBORHOODS

Another equally important major resource that local leaders can utilize in implementing their strategies is neighborhoods and neighborhood organizations. Neighborhoods are the basic building blocks of cities, after the family itself. Each renewed and stable neighborhood strengthens the social and economic fabric of its city. Healthy neighborhoods are key to urban America's well-being. Neighborhood organizations are reservoirs of energy and ability can aid in service delivery and local governance, while organizing volunteer self-help efforts and building a sound and viable community. Local leaders should recognize and build upon these resources..

Earlier sections have already discussed how neighborhood organizations can be given responsibility for the delivery of some services. Tax credits to compensate these organizations for the costs of doing so can make this feasible while costing the city little. Because local residents have a more intimate knowledge of their neighbor's needs, circumstances and abilities, neighborhood organizations are particularly well-suited to performing many city services. Examples include garbage collection, street and park maintenance, snow removal, and the operation of senior citizen and community centers.

Such organizations can also perform many important services on a self-help basis. They can organize crime-watch patrols, coordinating their efforts with the local police to help apprehend and deter criminals. Experience has shown such patrols to be one of the most effective means of reducing crime. The Guardian Angels in New York, while controversial, provide one example of an effort along these lines. Self-help organizations can also organize day-care centers and programs of care for the elderly. In conjunction with local businessmen, they can develop basic job-training programs. They can provide neighborhood transportation services to the elderly and handicapped. They can repair run-down houses, plant trees, clean up litter, and take other actions to improve the appearance of the neighborhood.

Neighborhood groups and institutions can also provide the social structure that binds a community together and builds strong social values. They can organize and support recreational activities for youths, such as scout groups and little league teams. They can organize social events for the entire community, such as block parties and ethnic festivals. They can develop programs for imparting the values and crime. They can express community outrage and condemnation of drug and criminal activities. They can provide vehicles for local participation in the democratic process. They can offer city governments the mechanism for devolving political and financial control to the local level, close to residents, giving them the opportunity for personal participation.

In almost every neighborhood in the country, volunteerism has been formalized through neighborhood organizations. People realize that "neighborhood" is more than just a place where they live or work. The neighborhood nourishes the spirit of community--the creativity, commitment, and energy of neighbors helping each other. It is a place of familiarity and belonging that nurtures tradition and continuity in the lives of its residents. It stands as a buffer between the individual and the larger, distant society.

Tens of thousands of neighborhood groups have emerged in recent years, with varying levels of sophistication. These groups are as varied as their members and communities. Some groups are all-volunteer associations supported by annual bake sales, food festivals, or running a barter exchange. Others are large organizations with the staff and capacity to deliver services and run development projects with complex, long-term commercial financing.

Many groups address the immediate problems typical to urban neighborhoods--street crime, litter, the lack of child-care facilities. In Kansas City, for example, Marlboro Neighborhood Services uses donations and grants to bring health care to the homes of the neighborhood's elderly.

Other groups take on the long-term issues of housing, employment, and economic development. Toledo's River East Economic Revitalization Corporation, a group of neighborhood residents and businessowners, brought life back to the downtown area by attracting investors to build a new mini-shopping plaza worth more than $4.5 million that created 75 jobs.

Some groups are empowered by the city to be part of the yearly planning and budget decisions; Cincinnati's Community Councils help to allocate the Community Development Block Grant funds each year. Other groups focus on specific needs--in Baltimore, for instance, the Park Heights Community Council opened an alternative high school for neighborhood teenagers in rowhouses renovated by the group.

Still others provide a variety of social and environmental services to neighborhood residents. In the 12-block West Side neighborhood on the edge of downtown Newark, the Tri-City Peoples Corporation provides many of the human services needed by the area's 14,000 residents, ranging from day care, summer jobs, and job training, to transportation and crime prevention. Operation Brotherhood in Chicago offers food service, recreation, counseling, and other services to 3,000 elderly residents.

Further examples of successful neighborhood action abound. The House of Umoja in West Philadelphia has gained nationwide acclaim for its unique approach and remarkable success in stopping youth gang violence. The project began in 1968 when Sister Fattah and her husband invited 15 gang members to live with them, where they provided these young people with guidance and discipline. With the aid of local churches, businesses and civic groups, and money raised from raffles and dinners, the House of Umoja purchased neighboring houses to take in additional youths. The operation was expanded when the Pennsylvania Department of Public Welfare begain providing grants for each boy that Umoja took under its care.

Now the House of Umoja is broadening its vision still further, with a two-part employment program, a staff, and an office. The Umoja Security Institute trains and then employs neighborhood gang members to escort the elderly and to guard businesses and shopping centers. The House also runs a job training and placement program and is starting an urban boys town.

One of the most comprehensive examples of neighborhood action can be found in Breezy Point in New York City. The entire Breezy Point neighborhood is owned by the residents on a cooperative basis. With 7,000 permanent and 8,000 seasonal residents, the cooperative members assess fees on themselves and use these and other funds to provide to the neighborhood the whole range of basic services usually provided by city government.

For example, the Co-op provides fire and ambulance services staffed entirely by volunteers. Because of the excellent neighborhood ambulance service, the city ambulance service is almost never called upon. Hired Co-op personnel collect refuse from individual homes and deliver it to a transfer station on the edge of the neighborhood for the city to pick up. Security guards hired directly by the Co-op provide additional protection for the neighborhood against violence and crime. The Co-op purchases metered water at the property line and distributes it through its own network of pipes which is maintained by Co-op personnel.

The Co-op also runs its own year-round shuttle bus service on a 20-to-30 minute schedule using mini-buses and station wagons. All roads and parking areas within the Breezy Point area, with one exception, are owned by the Co-op and maintained by its own 20 to 35 person force. These personnel also maintain all walks and Co-op owned structures and run a maintenance shop for Co-op vehicles. The Co-op also provides a lifeguard service and recreational programs and cleans and maintains the beaches.

This wide range of services is supported by a predominantly middle class community. The special control over service quality and mix makes these efforts worthwhile for the residents.

Still another example of successful neighborhood actions can be found in Baltimore, where the Park Heights Community Council responded to a neighborhood desire to upgrade education in the community by developing an alternative high school, the Park Heights Street Academy. The academy, housed in two semi-detached, renovated rowhouses, is accredited by the State of Maryland and receives funds from the Community Development Block Grant program, private foundations, and student tuition. The school has been so successful that it has grown beyond its initial purpose of serving Park Heights residents and now educates accelerated-program students from all areas of the city. The school also has begun a profitable recycling business (with a contract to recycle the city's refuse) which presently employs 30 persons, including a number of academy students.

In Indianapolis, a senior citizen program operated by the Southeast Senior Citizens Center, a spin-off of a community organization, provides a number of services to elderly members that help them overcome some of the transportation barriers often faced by this group. This program, one of several operated by this organization, has two major components. The first is a structural program in which hot lunches are served to approximately 70 persons per day, followed by educational activities ranging from trips and lectures to recreational activities such as bingo and pool. In the friendly visitor component of the program, eleven caseworkers made 1,650 home visits to the elderly last year, helping them with transportation to the doctor or grocery shopping or on trips around town.

The most striking thing about neighborhood action is that it works so well. It improves the local economy and quality of life in measurable ways. People are taken off the welfare rolls and put to work in community jobs. Abandoned houses are renovated for home ownership. Neighborhood youth are engaged in training and recreation.

Neighborhood action also has an impact on the city government and its economy. Because the neighborhood group can set priorities responsive to residents' needs, these organizations can help local governments allocate and coordinate resources efficiently, often reducing municipal costs. The improvement brought about by neighborhood action in the local economy and community livability similarly benefits local businesses and financial institutions.

Perhaps as important as the tangible benefits in the neighborhood are the intangible changes that occur. Neighborhood voluntary action reduces the alienation and apathy which overwhelm people when they feel helpless or powerless in the face of strong forces which lead to neighborhood decline. People realize, "We can do it ourselves, we can control our own environment." Their awareness of the impact that their voluntary activities have on their neighbors and on their community builds a sense of community self-reliance. With imagination, commitment, and energy, neighborhood groups turn from looking to others for ready-made solutions and rely upon their abilities to solve problems.

Local leaders should recognize and build upon these resources. City officials should encourage the establishment of neighborhood groups and institutions. Through local leadership, such officials can unlock a latent wealth of neighborhood talent leading to the establishment of effective and viable organizations. Substantial city funding for such organizations is not necessary. The city can help by providing information and technical assistance concerning effective organizational structure and management, strategies and techniques that have worked well elsewhere, and how to deal with the other organizations which affect neighborhoods, such as private firms, financial institutions, and city government. Local leaders should involve neighborhood organizations in developing and implementing the city's overall strategy, which should include a major role for these organizations.

CONCLUSION

Cities can be self-reliant. A reduction in Federal aid to cities need not and should not be translated into proportional cuts in vital local services. Cities can become the masters of their own destinies--regardless of the level of Federal support.

Every American city--no matter what its circumstances--needs a coherent, custom-tailored, long-term strategy for success. Such a strategy must aim for a reinvigorated local economy, a balanced municipal budget, improved local services, and a higher quality of urban life.

There is a broad array of policies a city can undertake to achieve these goals. Indeed, in the long run such local approaches are likely to be the only effective way to ensure a satisfactory future. The Federal Government surely cannot undertake these actions and clearly cannot guarantee a city's long-term prosperity. That is fundamentally the responsibility of local leadership, working effectively with the private sector and with the city's neighborhoods. If it performs its job well, that leadership will develop a strategy for the city's future and chart a course that will enable the city not only to survive, but to assure its well being and its prosperity.

References, Chapter 4

1. Clagwell report on Dallas (Siegel)
2. NAE Transport Report on Dallas (Siegel)
3. Eugene, Oregon, ref. (Siegel)
4. Birch, David (Ferrara)
5. ESS Civil Service x Public Interest
6. ESS new book
7. Ref. to Lakewood Plan (x ESS)
8. ESS & Schick journal (Al Siegel)
9. ESS, PAR Intra-city Competition
10. ESS Annual Review UAAR Pub. _______
11. Gainsville, Fla. ref. (Ferrara)
12. Scottdale ref. RA, & more recent (RA)
13. Ref x my book -- guy at SUNY
14. ACIR (Ferrara) Zimmerman (Siegel)
15. Finkelstein ref? (Ferrara)

BACKGROUND INFORMATION ON SANTA MONICA'S DEVELOPMENT PROGRAMS

Table of Contents

1. 1982-1983 Grants

2. Santa Monica Recycle: A Comprehensive Recycling Program of the City of Santa Monica

3. Testimony of Ruth Yannata Goldway on Federal OSHA's Proposed Hazards Communications Standard

4. An Ordinance Entitled Toxic Chemical Disclosure Law

5. A Resolution of the City Council of the City of Santa Monica of its Intention to Amend the Comprehensive Land Use Ordinance Relating to Various Districts and Establishing Interim Guidelines

6. Staff Report on Housing Incentive and Development Agreement Between Harris Toibb and the City of Santa Monica

7. Staff Report on the Development Agreement Between Kendall Realty Co., Inc. and the City of Santa Monica

8. Agreement with Colorado Place Associates Permitting Development at 2600 Colorado Avenue

9. Development Agreement with Colorado Place Ltd., including Staff Report, Ordinance Approving Development Agreement and Development Agreement Negative Declaration and Initial Study

CITY OF SANTA MONICA

1982 - 83 Community Service Grants

ADEPT (Assisting the Disabled with Employment, Placement and Training) $ 30,000

The project will address employment needs by providing relevant direct services to the disabled of Santa Monica, and will offer technical assistance, consultation, and training to public and private employers of Santa Monica in order to increase employment opportunities of the disabled.

Center for Partially Sighted $ 9,732

The Center is devoted to meeting the unique needs of the partially sighted by: helping them to maximize their residual vision, assessing and enhancing their adjustment to their visual condition, and by providing strategies for coping with vision related psycho-social problems.

Child Care Information Service $ 75,264

Services include: A resource and referral staff person who provides child care counseling and operates a mobile toy-loan program, resource consultations with employers and the City on the development of child care services, and a scholarship fund for pre-school children.

Clare Foundation $ 22,856

An alcohol problem outreach and recovery service program which provides public information, recovery services, peer activities, community education and resource development. Funding emphasis this year will be on senior citizens.

Family Service $ 62,109

A family and individual counseling program which includes resource referral.

L.A. Childbirth Center $ 30,000

Program provides comprehensive maternity care services including health education and consumer-oriented prenatal care.

New START Program $ 109,596

A community-based multi-service counseling program serving youth and adults by addressing the particular needs of youths having difficulty with their parents, the law, school, and drug use.

Ocean Park Community Center $ 108,794

Provides general services and counseling program to low/fixed and moderate-income residents with emphasis on the Spanish speaking community. Services include: crisis intervention, advocacy (legal, social, medical, housing), and individual, family, and group counseling.

Ocean Park Community Organization $ 81,900

The Organization serves as a voice and a forum for the people of Ocean Park to express their views, grievances, etc., in order to impact issues pertaining to their neighborhood.

Pico Neighborhood Association $ 42,150

The Association's purpose is to increase the participation of low and moderate-income persons and minorities in the City decision-making process and to encourage interest in the development of neighborhood plans to deal with the problems and concerns of the area.

Project Heavy West $ 20,850

A juvenile diversion project to deter youths from committing crimes which lead to incarceration by providing social adjustment counseling, job training, tutoring, and recreational services.

Santa Monica Bay Volunteer Bureau $ 114,789

Provides services to the elderly including transportation, in-home services, adult day care, and retired senior volunteer services.

Senior Health and Peer Counseling $ 59,435

The program provides preventative health services to seniors by promoting early detection, self-care, and independent living.

Sojourn (Battered Women's Services) $ 28,825

The program addresses the needs of battered women and children by providing crisis intervention, social service advocacy, shelter, counseling, and support services.

Stepping Stone (Youth House) $ 56,000

Stepping Stone serves as a crisis shelter for runaway / throwaway youths, as well as a crisis intervention, information, referral, and support center for parents and youths.

Venice Family Clinic $ 15,000

A free medical clinic providing primary and specialty care services for low-income residents who lack access to adequate essential health care. Clinic services a large number of Hispanic and third-world patients.

Westside Ecumenical Conference $ 17,745

WEC's Meals on Wheels program serves the hunger / nutrition needs of persons who are unable to leave their homes to buy food and/or unable to prepare food brought to them, by providing a home delivery prepared food program.

Westside Women's Clinic $ 30,000

This community health clinic provides comprehensive low-cost gynelogical care for women. Grants this year will be used to fund a menopause program to serve the medical and emotional needs of women.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Child Abuse Pilot Project $ 12,400

Provides treatment and follow-up of child abuse cases as well as counseling services, child abuse listening line, community education and outreach.

Latino Resource Organization $ 97,500

A citizen participation oriented program designed to form a mutually beneficial link between the Latino community and City services. Added services include translation and an ombudsman program.

Neighborhood Adult Participation Project $ 15,600

Provides direct social services, advocacy, community outreach and social development activities for low-income residents.

Residential Security Installation Program $ 36,508

(Project Crime Stop)

This program involves a crime prevention effort which includes security audits and free installation of door and window locks and peep-holes in the homes of low and moderate-income residents. (Implemented by Ocean Park Community Organization)

Neighborhood Housing Project $ 25,258

An outreach community program directed specifically toward the Ocean Park Community, with a neighborhood housing coordinator to work with a committee of tenants to assess their housing needs and problems, and work on ways to address them.

Youth Development and Employment Program $ 43,000

A youth program geared toward the development of youth participation and youth leadership in the community. Youths are employed by the Pico Neighborhood Association in jobs which work for the betterment of the community.

Housing Rehabilitation $545,048

Pico Neighborhood Association

Will work with the young Israel Development Corporation to provide up to $4,000 worth of rehabilitation to at least 200 units of deteriorating housing in the Pico Neighborhood area.

GENERAL FUND

Santa Monica Symphony	$ 14,700

Funding is provided for five admission-free concerts of the Santa Monica Symphony Orchestra, for weekly orchestra classes, and to support the continuance of the only adult symphony orchestra appearing regularly in Santa Monica.

Santa Monica Theatre Guild	$ 2,955

Funding is provided for the continuance and expansion of the senior citizen matinee program as well as funding for senior citizen admissions to regular evening performances held at the Morgan Theatre.

Symphonies-By-The-Sea	$ 6,510

Three annual admission-free professional symphony performances in the Open Air Theater at Santa Monica College. The organization provides its own volunteer administration services, publicity, and scenic design.

Centro Legal and Legal Aid Society of Santa Monica	$108,027

A public interest law program which offers legal aid service to low-income persons. Emphasis is on general counseling as well as services in Housing Law, Family Law, and Immigrant's Rights.

SANTA MONICA RECYCLE:

A COMPREHENSIVE RECYCLING PROGRAM OF THE CITY OF SANTA MONICA

(March 1982)

SANTA MONICA CURBSIDE RECYCLING PROGRAM

On May 15, 1981, the State Solid Waste Management Board (SSWMB) awarded $263,000 to the City of Santa Monica for implementation of a curbside recycling program entitled, "Santa Monica Recycle". Following is a description of the program.

Recycling Program Summary

The intention of Santa Monica Recycle is to offer full scale multi-material recovery services. The Santa Monica Community Recycling Program has four components.

1) Single family curbside collection of newspaper, glass, and cans.
2) Multi-family curbside collection of newspaper, glass, and cans.
3) Cardboard salvage at transfer station.
4) Centralized recycling center.

1. Single Family Curbside Collection

Single family households are asked to place recyclables at the curb or alley segregated into:

1) Newsprint
2) Glass
3) Cans

Materials are collected every other week on the regularly scheduled refuse pick-up day. The program is projected to divert 73 tons/month assuming a 40 percent average monthly participation rate. Approximately 7,000 Single family homes will be served. Two attractive, 5-gallon plastic pails have been given to residents to store glass and cans. Newspapers are bagged or bundled.

2. Multi-Family Collections

The high density of the multi-family residential neighborhoods requires a collection system different from that utilized in single-family neighborhoods. Therefore, Santa Monica Recycle is experimenting with "recycling zones". A demonstration of the recycling zone concept is occurring in two areas of the City: Ocean Park and north of Wilshire Boulevard between Ocean Avenue and 12th Street. Approximately 40 zones will be established. This represents approximately 8,000 multi-family units and a population of 16,467.

A recycling zone consists of three 2-cubic yard bins placed together; one bin each for glass, newspaper, and cans. Each zone requires a space of approximately 18' x 4'. The bins are emptied once a week as well as on a 24-hour notice. The demonstration could divert as much as 65 tons per month assuming a 40 percent participation rate.

In the north of Wilshire neighborhood, areas have been identified in the alleys that are designated for the recycling bins. However, the Ocean Park area does not have comparable alley space. In the mixed single-family/multi-family blocks of Ocean Park, curbside pick-up service of recyclables will be offered. Residents in the higher density areas of Ocean Park will be asked to take recyclables to one of 4 recycling zone. Two zones are located in parking lots, one in an alley and one on the street. We were concerned about placing bins on the street, but the street zone is doing fine with no complaints.

3. Cardboard Salvage at Transfer Station

Cardboard arrives at the transfer station relatively contaminent free. Those routes collecting a high percentage of cardboard, deposite their payload in a separate area of the Transfer Station. It is hand sorted to eliminate contamination and then baled. At a 50 percent recovery rate, 150-200 tons/month could be recovered. Eventually we hope to purchase additional equipment to establish a corrugated route. Merchants in the Central Business District will be asked to separate cardboard from refuse.

4. Centralized Recycling Center

A centralized recycling center, operated by Ecolo-Haul, offers buy-back services for aluminum cans and newspaper. The Center also offers drop-off service for all materials. The

Center is located at the Transfer Station at the City Yards. Ecolo-Haul also processes and markets materials generated by the curbside program. Ecolo-Haul was chosen through a bidding process to be the primary contractor for these services.

Program Management

After discussing the implication of various levels of City involvement in management, a decision was reached to make this a joint public/private enterprise. The City provides the curbside collection service. A Private Contractor, Ecolo-Haul, chosen through competitive bid, will run the Recycling Center and market the materials. Fisher and Associates, a Public Relations firm, is responsible for the media campaign. Responsibilities are distributed as follows:

1) Under the direction of the Maintenance Manager, the City will provide:
   a) Collection personnel for the curbside program.
   b) Collection vehicles and material processing equipment (grant funded).
   c) Bins (grant funded).
   d) Operation and maintenance on vehicles and bins.
   e) Cardboard salvage and baler operators.
   f) Site for processing center (grant funded).
2. The Recycling Contractor will:
   a) Process the aluminum and cans arriving at the Processing Center from the routes.
   b) Market all materials recovered.
   c) Provide multi-material buy-back and drop-off services.

3. The Public Relations Contractor will design and direct the public relations and advertising campaign (grant funded).

PROGRAM BUDGET

The cost sharing agreement for implementation and on-going operation and maintenance will be as follows:

			COST
GRANT:	1) Collection equipment		
	2) Processing equipment		178,000
	3) Site improvements		45,000
	4) Public awareness		40,000
		TOTAL	$263,000
CITY:	1) Personnel (5)		$113,954
	2) Operation and Maintenance Costs		11,300
		TOTAL	$125,254

The City's funding commitment has been included in the 1981-82 Recycling Budget under the Enterprise Division of the General Services Department.

First Year Revenues

Attached are projections of first year revenues. This projection is conservative and reflects the current recessed recycling markets. As the markets improve, which they are expected to by the 3rd quarter, revenues could exceed the projection.

GENERAL SERVICES - RECYCLING DIVISION (443)
EXPLANATION OF REVENUES

Description of Revenue Source

Revenues are generated from three sources:

1. Sale of newspaper, glass and cans recovered from curbside recycling routes.
2. Cardboard recovered and baled from Transfer Station.
3. Lease payment from Recycling Center.

FY 1982-83

Projecting revenues for recycling markets is highly speculative. The paper markets are especially volatile. In addition, recycling markets are experiencing a severe recession. Industry experts do not see a turn around until the general economy improves and interest rates come down. This could be as late as winter 1982. The following prices for materials reflect a best guess of the average price for material:

	Ton/Month	Price/Ton	Revenue/Month	
Newspaper	65	$20.00	1300	
Gross	35	10.00	350	
Aluminum	1	.30 Lbs	600	
Metal Cans	7	9.00	63	
Cardboard	20	25.00	500	
	128		2813	x 12 months = $33,756

Recycling Center Lease (7 Mo @ $600., 5 Mo @ $1330)	10,850		
		Sub-Total	$44,605
In House Recycling:			
Metals/City Yards	800		
White Paper City Hall	1,200		
	2,000		
		Sub-Total	$46,606
Savings in Hauling Costs to Landfill (2,736* tons/yr @ $15./Ton	41,040		
		Total	$87,646

* 128 tons/month curbside + 100 tons/month Recycling Center = 228 TPM X 12 = 2,736 tons/year

TESTIMONY OF RUTH YANNATTA GOLDWAY

MAYOR OF THE CITY OF SANTA MONICA, CALIFORNIA

on

Federal OSHA's Proposed Hazards Communication Standard

before the

U.S. Department of Labor
Occupational Safety and Health Administration

Los Angeles Field Hearing
Hotel Bonaventure

July 20, 1982

Docket #H-022

My name is Ruth Yannatta Goldway and I am Mayor of the City of Santa Monica, California. With me today are Stanley Scholl, Director of our City's Department of General Services, and Andrea Hricko, our Toxic Chemical Program Coordinator. Thank you for allowing us time to present our views concerning your proposed Federal OSHA Hazards Communication Standard.

At the outset, I would like to state that I fully support regulations which give workers information about all the hazards to which they are exposed, along with information about acute and chronic health effects, such as cancer or birth defects in their children. I believe that every worker needs and deserves full information about the chemicals to which he or she is exposed, whether that exposure occurs in a chemical plant, a service station, or a hospital.

In this regard, our staff has reviewed your proposal and find it to be extraordinarily limited in its scope; it is full of loopholes that would benefit industry while continuing to keep the majority of American workers in the dark about job hazards. But we will leave detailed criticisms about the proposal for others to discuss over the next several days of this hearing. Our purpose in testifying today is different.

Santa Monica has a Toxic Chemical Disclosure Law -- one of the type often referred to as a "community right-to-know" law. We are appearing today because OSHA specifically names our ordinance under various sections of the proposed rule which deal with federal preemption of state and local laws. Your proposal implies that a number of industry representatives, particularly those involved in chemical manufacturing, would like to see that state and local right-to-know efforts are curtailed; it also indicates that your agency would like to (and seems to believe it can) strip power from states and localities which pass such laws on the grounds that they would conflict with the final OSHA rule.

If you examine our Toxic Chemical Disclosure Law, you will find no way in which our law can be construed as "conflicting" with your federal proposal. Our ordinance serves a different purpose than does your proposed rule.

In order to make our following comments clearer, I would like to quote those sections of your proposal which mention local ordinances:

> (1) From the Background (p. 12095) entitled "Conflicting State and Local Standards": "At the present time (i.e., March 19, 1982), nine states and the city of Philadelphia have enacted unique worker right-to-know laws. Other state and municipal governments, including New Jersey, Ohio, and such cities as Louisville, Kentucky and Santa Monica, California, are in various stages of considering enactment of similar laws." (emphasis supplied)

This section goes on to state that "a number of industry representatives, particularly those involved in chemical manufacturing, have acknowledged the potential for conflicting or cumulatively burdensome state and local laws." It also contends that "the proliferation of state and local standards may create a burden on interstate commerce" . . . "since most manufacturers transport their products across state lines."

The section concludes that "A single, comprehensive Federal Standard for hazard communication would eliminate this conflict, decrease the cumulative burden of compliance, and ensure basic protection for all employees."

(2) Santa Monica is again mentioned on page 12100 of your proposal, although that section actually contains no analysis of local ordinances.

(3) From the section entitled Legal Authority (p. 12108): "This proposal constitutes a comprehensive approach by OSHA to require all employers in the manufacturing sector to communicate all known physical and health hazards to employees through a combination of labels, material safety data sheets, and education and training. Together with the OSHA records access standard, 29 CFR 1910.20, it will, when issued as a final standard, carry out OSHA's intention to fully address the worker "right to know" issue. The final standard, therefore, should preempt: (1)

> Any state standard submitted under an OSHA state plan which OSHA determines not to be "at least as effective" as the OSHA standard in providing safe and healthful employment and places of employment, section 18(c)(2),29 U.S.C. 667(c)(2); and (2)any state or local law or regulation which, in any event, "inescapably burdens or conflicts with the OSHA standard." (emphasis supplied)

Statements in the proposed standard about conflicts with your rule and burdens on interstate commerce indicate to us a lack of understanding on the part of those who drafted the OSHA proposal -- lack of understanding about what the various laws contain, what they require, and what their purpose is. First, I would like to explain why a number of California communities have enacted local ordinances. And second I would like to explain our ordinance so that, at least with respect to Santa Monica, there is some accurate information in your record about local right-to- know laws.

The general purpose of community right-to-know laws in California

Toxic substances are by no means confined to the workplace. Accidental exposures of the general population are a continuing threat and an unfortunate reality. But just as workers are unable to protect themselves without information about chemical exposure, so are residents and local officials unable to develop plans to protect their community without access to information.

The state of California has a statewide worker right-to-know law. Giving community officials and residents the right to obtain information on toxic substances is a natural extension of the same rights already given to California workers. With this purpose in mind, a number of local ordinances have been passed in California and others are under consideration at this time.

Intent of the Santa Monica City Council in passing the Toxic Chemical Disclosure Law

On November 3, 1981, the City of Santa Monica adopted Ordinance No. 1232, the Toxic Chemical Disclosure Law. (For the record, we would like to point out the inaccuracy of that portion of your proposal which states that our ordinance had not been enacted at the time you published your proposed rule in March 1982; indeed, our law had been enacted over four months earlier and most businesses in Santa Monica had already complied with it by the time your proposal was even published.) Section 5300 (Findings and Purpose) of our ordinance declares that:

> "The handling, storage, use, processing, and disposal of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes may endanger the public health, safety, and welfare of the citizens of the City".

This section raises several concerns about toxic chemicals and hazardous wastes, including:

(1) past reports of trichloroethylene contamination in the municipal water system; and

(2) reports of illegal dumping into the Los Angeles County Flood Control District storm drains.

The section on Findings and Purpose concludes that a "disclosure ordinance" was necessary to protect citizens and to respond to emergencies:

> "Disclosure is necessary so that the City may respond to any emergency created by the handling, storage, use, processing, or disposal of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes; so that the source of such chemicals, materials, and wastes may be identified quickly in the event of such an emergency; and so that the City may acquire information on the location of persons and entities using such chemicals, materials, or wastes."

Finally, Section 5300 states that the Santa Monica ordinance "is adopted solely for the purpose of public disclosure," not regulation:

> "It is not the intent of this Chapter to regulate the handling, storage, use, and processing or disposal of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes. This Chapter is adopted solely for the purpose of public disclosure."

Clearly, our ordinance is aimed at protection of our citizens and at enabling us as local officials to adequately respond to emergencies. I would like to briefly explain the mechanism that is set up under our Toxic Chemical Disclosure Law and then explain some uses for the information that we are collecting.

Requirements for businesses under the Santa Monica ordinance

Our ordinance requires that certain businesses in the City of Santa Monica file a Toxic Chemical Disclosure form with the City every year as a condition of business license renewal. The form requires the following to be disclosed:

1. chemical names of any toxic chemicals or materials which are used, handled, stored, processed, or disposed; the chemicals to be listed are ones found on three lists which we reference in our ordinance:

    (a) hazardous wastes listed by the State of California under Title 22 of the California Administrative Code;

    (b) Priority Organic Pollutants listed by the U.S. EPA; and,

    (c) radioactive materials listed by the U.S. Nuclear Regulatory Commission in Chapter 1, Title 10, Energy, App. A.

2. Method of disposal (whether into the sewer system or storm drain or otherwise disposed).

3. Quantity maintained on a yearly basis (that is, the maximum quantity maintained at any one time over the course of a year.)

4. Storage method (e.g., drums, tanks).

If the business which is required to fill out the disclosure form does not know the chemical (generic) name of a product, the business is allowed under the ordinance to disclose the product name and manufacturer instead of the chemical name. The ordinance goes on to state, however, that the Director of General Services can obtain a sample of a chemical whose product name only is disclosed, so that the City can analyze it, if necessary, to obtain the actual chemical ingredients.

All Toxic Chemical Disclosure forms submitted to the City are available for public inspection.

Industry response to the Santa Monica ordinance

Passage of our Toxic Chemical Disclosure Law was supported both by our Toxic Chemical Citizens' Task Force as well as by our local Chamber of Commerce. Business response to our ordinance is very encouraging; the rate of compliance is over 85%. We sent forms to nearly 900 firms; these firms were required to tell us whether or not they used any chemicals on the list. Of the firms responding, 298 (1/3) reported that they used, handled, stored or disposed of one of more listed chemicals and disclosed what those chemicals are.

Of interest to your agency might be the information that of the firms which reported using chemicals, roughly 1/2 reported all chemicals by actual chemical names; 1/6 reported chemicals by brand name only; and the remaining 1/3 submitted a form with a combination of chemical and brand (product) names.

We collect information about use of chemicals from a variety of employers that would not be covered by your proposed rule: e.g., we cover drycleaners, service stations, vehicle painting operations, photo processing, medical, dental, and chemical laboratories, and furniture refinishing operations, as well as manufacturing plants and many other categories of business.

Drycleaning establishments are outside the scope of your proposal which covers only manufacturers in SIC Codes 20-39; yet we show seventeen drycleaners in Santa Monica disclosing use of the suspected cancer-causing agent perchloroethylene, the solvent most widely used nationwide for drycleaning. We also show utilities reporting use or handling of PCB's, trichloroethylene, 1,1,1-trichloroethane, and numerous other listed materials. And we have hospitals disclosing use, handling, or storage of such toxic materials as ethylene oxide, formaldehyde, and benzene.

California's worker right-to-know law (the Hazardous Substances Information and Training Act) recognizes the importance of communicating information on hazards to all workers; it covers employees at worksites like the ones just mentioned -- drycleaning establishments, hospitals, and utilities. I cannot imagine that your agency seriously believes that workers in these businesses deserve less protection against these potential hazards just because their employers do not happen to be manufacturers.

What Santa Monica plans to do with information on chemicals collected under its Toxic Chemical Disclosure Law: some examples

The Santa Monica City Council is firmly committed to protecting the citizens of our community. We fully intend to continue to do our best to protect the local population -- regardless of what federal OSHA does. We do not feel that your agency can claim to provide under its proposed regulation what we are aiming at under ours. I would like to describe what the information which we collect under our ordinance can be used for -- and then ask how your rule could provide the same assistance to a local community attempting to protect the health and welfare of its citizens.

-- Protecting the public against water contamination.

One of the most important issues facing local officials is their readiness to respond to toxic substance emergencies that affect residents of the community -- such as release of a toxic material into the sewer or the storm drain. In Santa Monica a substance that is discharged illegally into one of L.A. County's Flood Control District storm drains will eventually find its way to the ocean and can thus contaminate our beach.

Without information on which chemicals are used at particular sites, we are virtually unable to begin the search for the source of such illegal dumping. Now that we have a disclosure ordinance, we will be better able to begin an investigation of a contaminated storm drain effluent. E.g., if we detected trichloroethylene in a storm drain sample, we now know the names of at least 14 businesses in Santa Monica using this solvent.

-- Planning for fire or safety emergencies.

Information from our ordinance is being used to plan emergency response actions for toxic chemical spills, fires that involve stored toxic substances, and industrial releases of toxic materials.

For example, we have begun to coordinate our Toxic Chemical Disclosure Program efforts with ongoing activities in both our Police and Fire Departments. We are initially providing our Fire Department with the information about which companies are using hazardous chemicals in quantities over 100 gallons. Later we will supply them with a complete computer print-out of all chemicals reported in the City. Our initial meetings with the Fire Marshall indicate an interest in adding information on toxic chemicals to books already kept on fire trucks. In this way, firefighters responding to a fire at a specific location will have an idea of what they are likely to encounter and whether or not they may need to evacuate residents in the event of a fire. Thus, in addition to providing information to protect firefighters in the line of duty, we will also be able to provide information to better protect citizens in the event of an emergency.

The Police Department is using our new information to develop an emergency plan for what to do in the event of serious spills or a disaster -- such as an earthquake. Information on which businesses are using toxic or flammable materials is crucial to their planning efforts.

-- Assisting local businesses in finding economical methods of legally disposing of toxic wastes.

The high cost for a small company to properly dispose of its toxic wastes raises fears that some companies may decide to illegally dispose of small quantities. As an incentive to local industries to comply with toxic waste regulations, some municipalities are setting up coordinated disposal programs with licensed haulers to try to reduce costs of legally hauling away wastes for each employer. Based on information submitted to the City under the Toxic Chemical Disclosure Law, our General Services staff has begun to contact local businesses to determine the need for and feasibility of a special program in Santa Monica.

Conclusion

Santa Monica's right-to-know law is designed to protect the health of our community and to assist local officials in planning for emergencies. I do not believe that federal OSHA can claim authority to preempt our ordinance. The citizens and the City Council of Santa Monica worked hard for passage of a Toxic Chemical Disclosure Law. We do not intend to give it up.

CA:RMM:r
City Council Meeting 10-27-81 Santa Monica, California

ORDINANCE NUMBER 1232

(City Council Series)

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA ADDING TO ARTICLE V, CHAPTER 3, ENTITLED TOXIC CHEMICAL DISCLOSURE LAW

THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES ORDAIN AS FOLLOWS:

SECTION 1. Chapter 3 is hereby added to Article V of the Santa Monica Municipal Code to read as follows:

Chapter 3--Toxic Chemical Disclosure Law.

Section 5300. Findings and Purpose. The City Council finds and declares:

(a) The handling, storage, use, processing, and disposal of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes may endanger the public health, safety, and welfare of the citizens of the City.

(b) Recent reports have established that the municipal water system of the City has been contaminated by trichloroethylene, a known carcinogen.

(c) Recent reports have indicated that the flood control channels running through the City have been used for illegal dumping, the source of which is often unknown, and that carcinogenic substances may be contaminating the Santa Monica Bay and its beaches.

(d) It is necessary for the protection of the citizens of the City that persons and entities that handle, store, use, process, or dispose of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes in the City disclose the identity of those substances.

(e) Disclosure is necessary so that the City may respond quickly to any emergency created by the handling, storage, use, processing, or disposal of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes; so that the source of such chemicals, materials, and wastes may be identified quickly in the event of such an emergency; and so that the City may acquire information on the location of persons and entities using such chemicals, materials, or wastes.

(f) It is not the intent of this Chapter to regulate the handling, storage, use, processing or disposal of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes. This Chapter is adopted solely for the purpose of public disclosure.

Section 5301. Definition of Toxic Chemicals, Radioactive Materials, and Hazardous and Extremely Hazardous Wastes. For purposes of this Chapter, toxic chemicals and hazardous and extremely hazardous wastes are those substances set forth in Sections 66680 and 66685 of Title 22 of the California Administrative Code or in the List of Priority Organic Pollutants maintained and updated by the United States Environmental Protection Agency. For the purposes of this Chapter, radioactive materials are those materials set forth in Chapter 1, Title 10, Energy, Appendix B, maintained and updated by the Nuclear Regulatory Commission. The Director of General Services shall maintain and update a list of such chemicals, materials, and wastes and shall distribute the list with the Toxic Chemical Disclosure Form.

Section 5302. Disclosure.

(a) The following holders of a license issued under Article VI of this Code shall be required to complete and file a Toxic Chemical Disclosure Form in the manner required by this Chapter:

(1) A licensee for a business located in the M-1 Limited Industrial District or in the M-2 General

Industrial District.

(2) A licensee for a business located in any district engaged in vehicle painting, rebuilding, reconditioning, body and fender work, repairing and overhauling, battery manufacturing, and the like.

(3) A licensee for a business located in any district engaged in laundry, dry cleaning, dyeing works, or carpet and rug cleaning.

(4) A licensee for a business located in any district engaged in photo processing.

(5) A licensee for a business located in any district engaged in metal or plastic cutting or forming.

(6) A licensee for a business in any district engaged in printing, lithographing, or similar processes.

(7) A licensee for a business in any district engaged in pest or weed control or abatement.

(8) A licensee for a business in any district engaged in a medical, dental, or chemical laboratory.

(9) A license for a business in any district engaged in furniture refurbishing.

(b) The Toxic Chemical Disclosure Form shall be adopted and from time to time amended or revised by resolution of the City Council following public hearing. The Toxic Chemical Disclosure Form shall require the disclosure of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes handled, stored, used, processed or disposed of in the City and shall require the disclosure of such substances disposed of through the municipal sewer system or the flood control channels maintained by the Los Angeles County Flood Control District.

(c) Every person required to disclose under subdivision (a) of this section shall complete and file a Toxic Chemical Disclosure Form within 90 days of the date of adoption of this Chapter. Within 45 days of the date of adoption of this Chapter, the Director of General Services shall mail a Toxic Chemical Disclosure Form to every licensee required to disclose under this section. Thereafter, such licensees shall complete a Toxic Chemical Disclosure Form in the manner required by subdivision (d) of this section.

(d) No license issued pursuant to Article VI of this Code shall be renewed unless a Toxic Chemical Disclosure Form is completed by any person required to file such a form under this section. The Toxic Chemical Disclosure Form shall be mailed with the Business Tax Renewal Notice and shall be completed and filed with the City on or before September 1 of each year.

(e) Prior to the issuance of any business license pursuant to Article VI of this Code for any business described in subdivision (a) of this section, a Toxic Chemical Disclosure Form shall be completed and filed with the City.

(f) When one or more substances requiring disclosure are mixed with other substances and packaged under a product name, the product name may be disclosed instead of disclosing each substance contained therein. If the Director of General Services requests a sample of such product for purposes of analysis and such request is refused, the person making disclosure shall be required to complete and file an amended Toxic Chemical Disclosure Form within 10 days of such refusal identifying each substance subject to disclosure making up such product.

(g) Any person filing a Toxic Chemical Disclosure Form shall amend the form within 30 days of the date that the person handles, stores, uses, processes or disposes of any substance not previously disclosed.

Section 5303. Exemptions from Disclosure.

(a) No person shall be required to disclose any substance specified in Section 5301 contained in food, drug, cosmetic or tobacco products or in consumer products packaged for retail distribution to, and use by, the general public. This subdivision does not apply to any person engaged in the manufacturing of any such product.

(b) No person engaged in retail business shall be required to disclose any substance specified in Section 5301 that is contained in food, drug, cosmetic or tobacco products or in consumer products packaged for distribution to and use by the general public, unless the product is repackaged or altered in any way by said business.

Section 5304. Disclosure by Persons or Entities Not Covered by Business Licenses. The City, hospital, utilities, and private schools that operate within the City shall complete a Toxic Chemical Disclosure Form on or before the 31st day of December of each year.

Section 5305. Public Records. Any person may inspect and copy any Toxic Chemical Disclosure Form filed pursuant to this Chapter.

Section 5306. Fee. The fee for filing a Toxic Chemical Disclosure Form shall be $ 5.00 unless revised from time to time by resolution of the City Council following public hearing.

Section 5307. Enforcement. The Director of General Services shall implement and administer this Chapter and shall institute a system of audits and spot-checks meeting legal entry requirements to ensure compliance.

SECTION 2. Any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to affect the provisions of this ordinance.

SECTION 3. If any section, subsection, sentence, clause, or phrase of this ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the ordinance. The City Council hereby declares that it would have passed this ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

SECTION 4. The Mayor shall sign and the City Clerk shall attest to the passage of this ordinance. The City Clerk shall cause the same to be published once in the official newspaper within 15 days after its adoption. The ordinance shall become effective 30 days from its adoption.

APPROVED AS TO FORM:

Robert M. Myers

ROBERT M. MYERS
City Attorney

ADOPTED AND APPROVED THIS 3rd DAY OF November, 1981.

Ruth Yannatta Goldway
MAYOR

I HEREBY CERTIFY THAT THE FOREGOING ORDINANCE, NO. 1232, WAS DULY AND REGULARLY INTRODUCED AT A MEETING OF THE CITY COUNCIL ON THE 22nd DAY OF September, 1981; THAT THE SAID ORDINANCE WAS THEREAFTER DULY ADOPTED AT A MEETING OF THE CITY COUNCIL ON THE 3rd DAY OF November 1981 BY THE FOLLOWING COUNCIL VOTE:

AYES: COUNCILMEMBERS: Conn, Edwards, Jennings, Press, Zane, Mayor Yannatta Goldway

NOES: COUNCILMEMBERS: None

ABSENT: COUNCILMEMBERS: Reed

ABSTAIN: COUNCILMEMBERS: None

ATTEST:

Ann M. Shore
CITY CLERK

CA:RMM:r
City Council Meeting 9-22-81 Santa Monica, California

STAFF REPORT

TO: Mayor and City Council

FROM: Robert M. Myers, City Attorney

SUBJECT: Toxic Chemical Disclosure Ordinance

INTRODUCTION

At its meeting on June 30, 1981, the City Council directed the City Attorney to draft a Toxic Chemical Disclosure Ordinance. In response to this direction, the accompanying ordinance has been prepared.

In preparing the ordinance, the City Attorney has had extensive discussions with both the Toxic Chemical Task Force and the Industrial Committee of the Chamber of Commerce. Both organizations have had an opportunity to comment on earlier drafts of the ordinance. Most of their comments and concerns have been incorporated into the ordinance now presented for City Council consideration.

ANALYSIS

The proposed ordinance requires that certain specified entities complete and file with the City a Toxic Chemical Disclosure Form identifying toxic chemicals, radioactive materials and hazardous and extremely hazardous wastes that are handled, stored, used, processed or disposed of in the city.

The proposed ordinance adds Chapter 3 to Article V of the Santa Monica Municipal Code. The following discussion examines each section of the Toxic Chemical Disclosure Law:

Section 5300. Section 5300 contains the findings of the City Council relative to the necessity for a Toxic Chemical Disclosure Law.

Section 5301. Section 5301 contains a definition of toxic chemicals, radioactive materials, and hazardous and extremely hazardous wastes. The section requires that the Director of General Services maintain and update the list of chemicals, materials, and wastes. The list is required to be distributed along with the Toxic Chemical Disclosure Form.

Section 5302. Section 5302 contains the disclosure requirements.

Subdivision (a). Subdivision (a) identifies the businesses that are required to file disclosure forms. The businesses subject to disclosure are:

1. Businesses located in the M-1 Limited Industrial District and in the M-2 General Industrial District.
2. Businesses engaged in vehicle painting, rebuilding, reconditioning, body and fender work, repairing and overhauling, battery manufacturing, and the like.
3. Businesses engaged in laundry, dry cleaning, dyeing works, or carpet and

rug cleaning.

4. Businesses engaged in photo processing.
5. Businesses engaged in metal or plastic cutting or forming.
6. Businesses engaged in printing.
7. Businesses engaged in pest or weed control or abatement
8. Businesses engaged in a medical, dental, or chemical laboratory

The purpose of this subdivision is to limit the number of businesses that must file disclosure forms. Recognizing that most businesses in the City do not handle, store, use, process or dispose of toxic chemicals, the subdivision attempts to direct the disclosure to those businesses that are most likely to have substances to disclose.

Subdivision (b). Subdivision (b) indicates that the City Council shall adopt a Toxic Chemical Disclosure Form by resolution following public hearing. In addition to requiring basic disclosure, the form requires disclosure of any substances disposed of through the municipal sewer system or the flood control channels maintained by the Los Angeles County Flood Control District.

Subdivision (c). Subdivision (c) requires disclosure within 90 days of the date of adoption of the ordinance. Within 45 days of the date of adoption of the ordinance, the Director of General Services is required to mail disclosure forms to businesses required to disclose.

Subdivision (d). Subdivision (d) requires that disclosure forms be completed and filed each year at the time of business license renewal.

Subdivision (e). Subdivision (e) provides that no business license can be issued for a business subject to disclosure until a disclosure form is completed and filed.

Subdivision (f). Subdivision (f) is designed to permit disclosure of product names for products that may contain a number of substances subject to disclosure. The purpose of this subdivision is to simplify the disclosure requirement so that businesses are not required to ascertain each component of a product. However, although disclosure is simplified, the business must be willing to permit the Director of General Services to take a sample of the substance for purposes of analysis.

Subdivision (g). Subdivision (g) requires amendment of the disclosure form within 30 days of the date that a business handles, stores, uses, processes, or disposes of any substances not previously disclosed.

Section 5303. Section 5303 exempts from disclosure various consumer products that are generally available to the public.

Section 5304. Section 5304 requires that the City and hospitals complete and file a disclosure form on or before the 31st day of December of each year.

Section 5305. Section 5305 indicates that disclosure forms are public records.

Section 5306. Section 5306 provides that the fee for filing a Toxic Chemicals Disclosure Form is $ 5.00.

Both the City Attorney and the Director of General Services have concluded that an initial fee of $ 5.00 is sufficient to cover the processing of the information on the disclosure forms. After this information is processed, a better estimate of any additional costs necessary to enforce the ordinance will be obtained. In connection with the 1982-83 Budget, the ordinance can be amended (following public hearing) to impose additional fees on those businesses generating any enforcement problems.

Section 5307. Section 5307 provides that the Director of General Services is required to implement and administer the ordinance.

ALTERNATIVES

1. Adopt the accompanying ordinance as presented.
2. Adopt the accompanying ordinance with amendments.
3. Take no action.

RECOMMENDATION

It is respectfully recommended that the accompanying ordinance be introduced for first reading.

PREPARED BY: Robert M. Myers, City Attorney

CA:RMM:r
City Council Meeting 10-27-81 Santa Monica, California

RESOLUTION NUMBER 6385

(City Council Series)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA OF ITS INTENTION TO AMEND THE COMPREHENSIVE LAND USE ORDINANCE RELATING TO VARIOUS DISTRICTS AND ESTABLISHING INTERIM GUIDELINES

SECTION 1. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and the district for the C2 Neighborhood Commercial District as follows:

(a) Eliminate office use as permitted use in the C2 district unless the development is mixed with community oriented commercial or residential uses.

(b) Residential uses shall be permitted except at the ground floor street frontage.

(c) Rezone the following C4 zoned areas to C2 to reflect the current uses in these areas and to protect their current neighborhood commercial function:

(1) Wilshire Boulevard between 12th and 16th Streets.

(2) Broadway between 7th Court and 9th Street.

(3) Lincoln Boulevard between Santa Monica

Boulevard and Colorado Avenue. (Special concern should be given to the appropriateness of this proposal.)

(4) Santa Monica Boulevard between Chelsea Avenue and Princeton Street.

(5) Pico Boulevard between 31st Street and 34th Street.

(d) Artists' studios, craft shops, and/or artisan-type manufacturing -- separately or in conjunction with associated artists' residential usage -- shall be permitted in the C2 district with a conditional use permit.

(e) Only the following uses should be permitted on the ground floor street frontage of buildings in the C2 district:

(1) Retail stores.

(2) Antique and second-hand stores.

(3) Banks.

(4) Bakeries.

(5) Bicycle Shops.

(6) Delicatessens.

(7) Dressmakers.

(8) Drug stores.

(9) Feed and fuel stores.

(10) Film exchange or developing.

(11) Florists, flower and plant nurseries.

(12) Gymnasiums, dance studios.

(13) Ice-cream stores (retail ice cream only).

(14) Laundries, laundromats, dry cleaners.

(15) Medical and dental clinics or laboratories.

(Laboratories permitted above the first floor only.)

(16) Pet stores, taxidermists.

(17) Print or publishing shops.

(18) Plumbing shops.

(19) Repair shops for household equipment.

(20) Theaters and auditoriums with fewer than 75 seats.

(21) Upholsters' shops.

(22) Wholesale stores where public is invited.

(23) Restaurants with fewer than 50 seats.

(24) Restaurants with 50 seats or more by conditional use permit.

(25) Barber shops/beauty parlors.

(26) Shoe repair shops.

(27) Such other uses as the Zoning Administrator may find to be similar to those listed above and not more obnoxious to surrounding property.

(f) All new construction must have at least 30% of the floor area devoted to community oriented commercial uses and/or residential use included in the development.

(g) The C2 zoned property owned by the City and currently used for beach parking should be rezoned to a municipal zone, if it is created, to reflect its current use and function.

(h) The C2 district shall have a height limit of two stories and 30 feet or three stories and 35 feet if the second or third floor is residential.

(i) Parking, residential, office, and other non-public invited uses may be located on the ground floor street frontage by a conditional use permit if at least 75% of the ground floor street frontage on the block is devoted to community oriented uses. "Community oriented uses" are those uses which provide commercial goods and services likely to be consumed on a regular basis in the normal life of the adjoining community.

(j) A single use occupancy or a contiguous, integrated use in excess of 8,600 square feet of floor area or in excess of 75 feet of ground floor street frontage should be allowed only with a conditional use permit so that small scale uses will predominate and so the potential negative impacts of large scale uses may be mitigated.

(k) Parking requirements should be reduced where it is shown that spaces may be shared among uses that have compatible hours of operation with appropriate controls and conditions for the life of the building.

(l) Any new structure should have provisions for adequate lighting of the alley.

(m) When housing is included in a commercial district, the design should be reviewed by the appropriate City agency.

(n) No demolition permit shall be issued until approval has been granted for a replacement structure.

SECTION 2. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive

Land Use Ordinance to change the text and the district for the C3 General Commercial District as follows:

(a) The following uses are desirable and should be encouraged:

(1) Theaters.

(2) Restaurants where dancing and entertainment are permitted.

(3) Art Galleries.

(4) Bars, saloons, and liquor stores by conditional use permit only.

(5) Book and record shops.

(6) Coffee houses.

(7) Clubs where dancing and entertainment are permitted.

(8) Retail (general and neighborhood).

(9) Open air activities such as markets and cafes.

(10) Residential uses shall be allowed on all floors.

(11) Skating rinks.

(12) Other similar uses that attract people to this area at all times of the day and evening.

(b) The following should also be permitted:

(1) All uses permitted in the C2 district.

(2) Any of the following uses if conducted within a completely enclosed building:

(A) Offices.

(B) Billiard parlors, pool halls or bowling alleys.

(C) Auditoriums.

(D) Bakeries.

(E) Baths, Turkish and the like.

(F) Bird shops, pet stores or taxidermists.

(G) Catering establishments.

(H) Automatic laundries employing only automatic washing and/or ironing equipment and dryers similar to that customarily used in the home for domestic purposes, except that not more than three such washing machines may have a capacity of not more than 25 pounds capacity each.

(I) Printing, lithographing, publishing, blueprinting or photostating.

(J) Repair shops for household equipment.

(K) Trade schools subject to a written finding by the Zoning Administrator that such school will not be detrimental to surrounding properties or permitted uses due to excessive noise, odor, vibration or similar characteristics.

(L) Upholstering shops, excluding manufacturers.

(M) Hotels and motels.

(N) Lodges.

(O) Business Colleges.

(P) Music conservatories and music

instruction.

(Q) Gymnasiums.

(R) Medical and dental clinics and laboratories.

(S) Notwithstanding other provisions of this section, multiple dwelling units shall be permitted on the first floor and above. Standards of the R4 Multiple Residential District shall apply to the residential portion of any structure, but not the commercial portion, provided further that the provisions of Santa Monica Municipal Code Section 9129G8 shall not apply to any residential uses in the C3 District.

(T) Exhibits of art sponsored by recognized art organizations and/or accredited schools need not be conducted within enclosed buildings if presented for not more than two days in any calendar month by any one group in the same location.

(3) Automobile parking lots or public garages.

(4) Such other uses as the Zoning Administrator may find to be similar to those listed above and not more obnoxious to surrounding property.

(5) Uses incidental to any permitted uses.

(6) Manufacturing, assembling, compounding, processing or treatment of products in conjunction with any permitted use when located entirely within the same building, provided that:

(A) All such products or services are sold at retail on the premises.

(B) There shall not be more than five persons engaged in the manufacturing, assembling, compounding, processing or treatment of products nor shall more than five persons (exclusive of office, clerical, delivery or similar personnel) be engaged in laundry, cleaning or catering establishments and the like.

(C) Such uses, operations or products as are not detrimental to surrounding properties or permitted uses due to odor, dust, smoke, noise, vibration or other causes.

(D) Automobile service stations are prohibited in the C3 district and must be removed and the land cleared or changed to some permitted use no later than 15 years from the date automobile stations were first prohibited.

(c) To reflect its current use and protect its current function, the area bounded by Santa Monica Boulevard on the north, 7th Court on the east, Colorado Avenue on the south and 5th Court on the west should be rezoned to require that any development be consistent with C3 requirements and contain at least 50% of the gross floor area for residential uses.

(d) The C3 zoned areas at Marine Street and Nielson Way should be rezoned R4 to protect their current use and function.

(e) The CP zoned area between 6th and 7th Streets should be rezoned C3.

(f) Special development standards apply to the following areas:

(1) Ocean Avenue and 2nd Street (West Side): Two stories, 30 foot height limit, 1.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking, and site review with specific guidelines to be developed as soon as possible (residential use should be counted at .5 in calculating floor area).

(2) Santa Monica Mall: Two stories, 30 foot height limit, and 1.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential use should be counted at .5 in calculating floor area).

(3) 2nd Street (East Side) and 4th Street (Both Sides): Three stories, 45 foot height limit, and 1.5 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential should be counted at .5 in calculating floor area).

(4) All of the C3 District From 4th Court to 7th Court: Four stories, 56 foot height limit, and 2.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential should be counted at .5 in calculating floor area).

(5) A Development Point System should be established which may be used to reduce any in-lieu fees and to preserve existing recreation, residential and social

services.

(6) While the long term development standards are being established, the Architectural Review Board should be directed to encourage pedestrian orientation in building design.

(7) Existing recreation, residential and social service uses must be replaced in any project that proposes to remove these uses.

(8) The proposed changes in this subdivision (f) should be considered of lower priority by the Planning Commission because these areas are receiving more intensive consideration by the Commercial and Industrial Task Force.

(g) Parking on the ground level that is covered by a building should not be permitted at the street frontage of a property. Uncovered surface parking should be permitted where needed.

(h) Site review shall be required for any project in the C3 district on Ocean Avenue.

(i) No demolition permit shall be issued until approval has been granted for the replacement structure.

(j) Site review or development agreements shall be required for developments in excess of 70,000 square feet.

SECTION 3. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and the district for the C4 Highway Commercial District as follows:

(a) The following uses will be permitted in the C4 district:

(1) All uses permitted in the C3 district.

(2) Ambulance service.

(3) Auto sales and service (new or used).

(A) Auto body repair and/or auto paint shops, provided all work shall be done in a one-hour fire-resistive building with no openings of any kind in any wall which is substantially parallel to and within 50 feet of the exterior boundary of the property and operated as part of a new car dealership on the same adjoining property.

(4) Boat, trailer, bicycle, motorcycle sales and service.

(5) Drive-in, drive-through, take-out or fast food restaurants, subject to the issuance of a conditional use permit with the number of similar uses already existing in the area taken into account.

(A) A drive-in or drive-through restaurant is one in which customers are served food in their vehicles and may consume it either on or off the premises.

(B) A take-out restaurant is one in which customers consume the food purchased off the premises.

(C) A fast food restaurant is one in which the typical customers purchase and consume their food on the premises within 30 minutes.

(D) A restaurant may be a combination of drive-in, drive-through, take-out or fast food type. If take-out sales are incidental or occasional, the restaurant shall not be considered a take-out restaurant.

(6) Drive-in theaters.

(7) Emergency clinics.

(8) Equipment rental.

(9) Plumbing shops.

(10) Print shops.

(11) Restaurants.

(12) Skating rinks.

(13) Tire shops (no retreading).

(14) Trailer courts, trailer parks, mission and other institutions offering domiciliary care subject to the issuance of a conditional use permit. For the purposes of this section "missions" shall be construed to mean any religious, quasi-religious or other non-profit establishments at which meals and/or lodging are provided.

(15) Wedding chapels.

(16) Feed and fuel stores.

(17) Film exchange or developing.

(18) Automatic ice dispenser of not more than five ton capacity.

(19) Sign painting shops.

(20) Miniature golf and pitch-and-putt courses.

(21) Secondhand stores or pawn shops excluding building materials and junk.

(22) Bars by conditional use permit only.

(23) Such other uses as the Zoning Administrator may find to be similar to those listed above and not more obnoxious to surrounding property.

(24) Residential uses shall be permitted except at the ground floor street frontage.

(25) Uses incidenta to any permitted use.

(26) Exhibits of art sponsored by recognized art organizations and/or accredited schools need not be conducted within enclosed buildings if presented for not more than two days in any calendar month by any one group in the same location.

(27) Automobile service stations subject to the issuance of a conditional use permit, and provided also that in no event shall such an automobile service station be permitted unless the entire area of the station, exclusive of building and pump islands, shall be surfaced with a minimum of two inches of asphaltic concrete or equivalent; and further, that there be erected and thereafter maintained, a solid masonry wall not less than five and no more than six feet in height along the common boundary between said station and any abutting property in a residential district unless such property in a residential district is, in fact, used for off-street parking.

(28) Hotels and motels.

(b) Remove the following C4 zoned areas from the C4 distict and rezone the areas to reflect the current uses in these areas and to protect their current function:

(1) The following areas should be rezoned from C4 to C2:

(A) Wilshire Boulevard between 12th Street and 16th Street.

(B) Santa Monica Boulevard between Chelsea Avenue and Princeton Avenue.

(C) Lincoln Boulevard between Santa Monica Boulevard and Colorado Avenue. (Special concern should be given to the appropriateness of this proposal.)

(D) Broadway between 7th Court and 9th Street.

(E) Pico Boulevard between 31st Street and 34th Street.

(2) The following area should be rezoned from C4 to R2:

(A) Broadway between 14th Court and 19th Court (south side) and between 16th Court and 19th Court (north side).

(3) The following area should be rezoned from C4 to R3:

(A) Broadway between 9th Street and 11th Street.

(B) Broadway between 12th Court and 16th Court (north side) and between 12th Court and 14th Street (south side).

(C) 14th Street between Broadway and the northerly edge of the M zoned areas fronting on Colorado Avenue.

(4) The City owned area zoned C4 at the west end of Montana Avenue should be rezoned to a municipal zone, if it is created, to reflect its current use and function.

(5) The M1 and M2 zoned area on Olympic Boulevard between 19th Court and 20th Street should be rezoned to C4.

(c) Parking on the ground level that is covered by a building should not be permitted at the street frontage of a property. Uncovered surface parking should be permitted where needed.

(d) The following development standards shall apply on the following streets where they are to be zoned C4:

(1) Wilshire Boulevard (Lincoln to 12th Street, 16th Street to Centinela Avenue): Four story, 56 foot height limit, and 2.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential uses are counted at .5 in calculating floor area); or if sufficient development points can be accumulated under a Development Point System to be established, five stories, 70 foot height limit, and 3.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential uses are counted at .5 in calculating floor area).

(2) Santa Monica Boulevard (Lincoln Boulevard to 20th Street, 23rd Street to Chelsea Avenue): Three stories, 45 foot height limit, and 1.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential uses are counted at .5 in calculating floor area).

(3) Santa Monica Boulevard (Princeton Street to Centinela Avenue): Three stories, 45 foot height limit, and 2.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential uses are counted at .5 in calculating floor area).

(4) Lincoln Boulevard (south of the freeway) and Pico Boulevard (7th Street to 11th Street): Two stories, 30 foot height limit, and 1.5 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential uses are counted as .5 of the floor area); or if a conditional use permit is approved, if there is no covered parking at the street frontage and if a 15 foot landscaped setback or landscaped surface parking area in front, three stories, 36 foot height limit, and 1.5 times commercially zoned lot area for floor area and above ground floor parking area and covered non-subterranean parking.

(5) Pico Boulevard (Ocean Avenue to 4th Court, excluding the CM zoned parcels; 21st Street to 31st Street); Lincoln Boulevard (Wilshire Boulevard to Santa Monica Boulevard); Olympic Boulevard (19th Court to 20th Street): Two stories and 30 foot height limit; or if third floor is residential, three stories and 35 foot height limit.

(e) The required parking may be reduced in mixed developments with compatible hours of parking needs.

(f) No more than 75% lot coverage.

(g) Site review shall be required for any project in the C4 district on Ocean Avenue.

(h) No demolition permit shall be issued until approval has been granted for the replacement structure.

SECTION 4. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and the district for the C4A Limited Highway Commercial District as follows:

(a) The following uses should be permitted in the C4A district:

(1) All uses permitted in the C4 district.

(b) Fourteenth Street from Broadway to the north property line of the M1 zoned area along Colorado Avenue should be rezoned from C4A to R3 to reflect the current uses and protect their current function.

(c) The following development standards shall apply in the C4A District: Three stories, 45 foot height limit, 2.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential uses are counted as .5 of the floor area).

(d) No demolition permit shall be issued until approval has been granted for the replacement structure.

SECTION 5. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and the district for the CA Commercial Administrative District as follows:

(a) The following uses will be permitted in the CA district:

(1) All uses permitted in the R4 District.

(2) Any of the following uses if conducted within an enclosed building:

(A) Offices.

(B) Financial institutions.

(C) Public buildings and facilities.

(D) Retail sales and services related or incidental to, and in the same building as, the uses listed above such as barber and beauty shops, confectionery stores, florist shops, gift shops, office supply stores, pharmacies and restaurants (no dancing or entertainment).

(b) The CA zoned area west of Cloverfield Boulevard and east of 21st Street should be rezoned from CA to R2.

(c) The remainder of the CA zoned area west of 21st Street and east of 20th Street should be considered for reclassification with some other existing district.

(d) The following height and bulk restrictions should apply: Three stories, 45 foot height limit, and 2.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking (residential uses are counted at .5 in calculating floor area).

(e) Parking on the ground level that is covered by a building should not be permitted at the street frontage of a property. Uncovered surface parking should be permitted where needed.

(f) Site review shall be required for any project in the CA district on Ocean Avenue.

(g) No demolition permit shall be issued until approval has been granted for the replacement structure.

SECTION 6. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and the district for the CP Commercial-Professional District as follows:

(a) The following uses are permitted in the CP District if conducted within an enclosed building:

(1) Offices.

(2) Financial Institutions.

(3) Hospitals or sanitariums, including convalescent hospitals (except animal hospitals), and home for the aged as defined in Title 22, Division 2, Subdivision 4, Chapter 6, Article 1, Section 40001 through 40007 of the Administrative Code of California, and board and care facilities.

(4) Medical and dental clinics and laboratories.

(5) Gymnasiums, reducing salons and similar physical education centers.

(6) Business colleges or private schools operated as commercial enterprises, including studios for the teaching of music, art and drama.

(7) Music conservatories and music instruction.

(8) Public services, including fire or police stations, telephone exchanges, and the like.

(9) Retail sales and services related or incidental to, and in the same building as the uses listed above, such as barber and beauty shops, confectionery stores, florist shops, gift shops, office supply stores, pharmacies and restaurants (no dancing or entertainment).

(b) Residentially used property in the CP district should be rezoned R3.

(c) The following development standards shall apply in the CP district: Three stories, 45 foot height limit, 2.0 times commercially zoned lot area for floor area and above ground floor parking and covered non-subterranean parking, and 75% lot coverage. (Additional height and floor area may be allowed with accumulation of additional development points for medical and related uses under a Development Point System to be established.)

(d) No demolition permit shall be issued until approval has been granted for the replacement structure.

SECTION 7. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and the district for the M1 Limited Industrial District and M2 Industrial District as follows:

(~~a) Rezone the area at Stewart Street and the freeway to R-4 from M1 to reflect its current use as a residential area and to protect its current function~~.

(b) Rezone the area on Olympic Boulevard between 19th Court and 20th Street to C4 (from M1 and M2) to reflect its current use and to protect its current neighborhood commercial function.

(c) Rezone the M1 and M2 areas bounded by Colorado Avenue, the north edge of the properties fronting on Pennsylvania Avenue, Stewart Street, the south end of the properties fronting on Pennsylvania Avenue, 26th Street, Olympic

Boulevard, and Cloverfield Boulevard to C4A to reflect the predominant use and to contain office development within the portion of the present industrial district where it will be less disruptive to the goal of maintaining industrial uses within the City.

(d) Rezone the following M zoned areas to M1A (an overlay zone with the same permitted uses as M1 district, but different development standards) to ensure that the uses and heights of buildings are compatible with adjacent residential and commercial development:

(1) The M1 and M2 zoned areas north of Colorado Avenue.

(2) The M1 zoned areas along Colorado Avenue from 26th Street to Stanford Street, along the 1600 (odd) block of Stanford Street, and along the 1700 (odd) block of Berkeley Street.

(e) The M2 zoned area from Stewart Street to Centinela Avenue between the railroad tracks and Exposition Boulevard rezone to M1A.

(f) Eliminate office use as a permitted use in the M zones except where the office is attached to and associated with an industrial or manufacturing business. The office area should be restricted to 35% or less of the total floor area of the structure, and support facilities should be limited to those appropriate to industrial and manufacturing uses so that later conversion to office use can be accomplished only with further City approval.

(g) Residential and neighborhood commercial uses should be permitted uses in the M districts and should be allowed after City review, but only in conjunction with industrial and manufacturing development on parcels of 100,000 square feet or more.

(h) Permitted uses would remain unchanged, except for the deletion of office uses.

(i) The M1A district should have a height limit of 36 feet and there should be a requirement that at least 10% of the site be landscaped.

(j) The building standards in the M1 and M2 districts should remain unchanged with a height limit of 45 feet with no required setback.

(k) The combining of existing lots to create a project site of 25,000 square feet or greater in the industrial corridor west of 20th Street should be allowed only by a conditional use permit to ensure that small scale "incubator" spaces in this area are maintained.

(l) The street tree planting program should be extended into the industrial corridor area.

(m) Pocket parks should be established in the industrial corridor.

(n) On sites of 100,000 square feet or more, site review is required.

(o) Site review is required for proposed developments incorporating on-site housing.

(p) On-site housing must be oriented toward adjacent residential or commercial development.

(q) No demolition permit shall be issued until approval has been granted for the replacement structure.

SECTION 8. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text so that when a residential district abuts any other district with a higher height limit (with the exception of R1 abutting R2), the lower height limit will prevail in the district with the higher height limit for the first one-third of the adjacent lot but in no event less than 35 feet. A property is adjacent if separated by alley but a property is not adjacent if it is separated by a street. One half of the alley width shall be considered in any distance calculation.

SECTION 9. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and district for the R4 Multiple Residential District as follows:

(a) Building height shall be not more than four stories and not more than 50 feet in height.

(b) Lot area per dwelling shall be a minimum of 900 square feet of lot area for each dwelling.

(c) A bulk standard should be developed with the goal of achieving reduction of lot coverage and provision of light and air.

(d) The property on Centinela Avenue between Ocean Park Boulevard and Pearl Street currently in the R3 district shall be rezoned to R4.

(e) Site review shall be required for any project in the R4 district on Ocean Avenue.

SECTION 10. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text for the R3 Multiple Residential District as follows:

(a) Lot area per dwelling shall be a minimum of 1,250 square feet of lot area for each dwelling.

(b) A bulk standard should should be explored.

SECTION 11. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text and the district for the R2 Multiple Residential District so that the properties currently in the R2 district set forth below are subject to development standards providing for a maximum lot coverage of 50% and a minimum of 1,500 square feet of lot area for each dwelling:

(a) Properties bounded by the Santa Monica Freeway, 20th Street, Pico Boulevard, and Lincoln Boulevard.

(b) Properties bounded by Pico Boulevard, the east City boundary, the south City boundary, and Lincoln Boulevard to Ocean Park Boulevard to 11th Street and 11th Street to

Pico Boulevard (with the exception of those properties zoned R2 on Oak Street).

(c) Properties bounded by Montana Avenue from 14th Street to the east City boundary, the east City boundary to Olympic Boulevard, Olympic Boulevard to Cloverfield Boulevard, Cloverfield Boulevard to Santa Monica Boulevard, Santa Monica Boulevard to 26th Street, 26th Street to Wilshire Boulevard, Wilshire Boulevard to 14th Street, and 14th Street to Montana Avenue.

(d) Properties on Lincoln Boulevard and Ninth Street north of Montana Avenue.

(e) Properties on Exposition Boulevard east of Stewart Street.

(f) Properties bounded by the Santa Monica Freeway, Cloverfield Boulevard, Pico Boulevard, and 20th Street.

(g) Properties bounded by the Santa Monica Freeway from 20th Street to 29th Street, 29th Street to Pico Boulevard, Pico Boulevard to 20th Street, and 20th Street to the Santa Monica Freeway.

(h) Properties bounded by Wilshire Boulevard from 14th Street to 26th Street, 26th Street to Santa Monica Boulevard, Santa Monica Boulevard to Cloverfield Boulevard, Cloverfield Boulevard to Colorado Avenue, Colorado Avenue to 14th Street, and 14th Street to Wilshire Boulevard.

SECTION 12. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive

Land Use Ordinance to change the text and the district for the R2 Multiple Residential District so that the properties currently in the R2 district set forth below are subject to development standards providing for a maximum lot coverage of 50%, a minimum of 1,500 square feet of lot area for each dwelling, and a 30 feet height limit with a maximum cornice-line height of 25 feet when the roof exceeds the maximum cornice-line height.

(a) Properties bounded by Pico Boulevard from 4th Street to 11th Street, 11th Street to Ocean Park Boulevard, Ocean Park Boulevard to Lincoln Boulevard, Lincoln Boulevard to the south City boundary, the south City boundary to 4th Street, and 4th Street to Pico Boulevard.

(b) R2 properties on Oak Street.

SECTION 13. Pursuant to Santa Monica Municipal Code Section 9149, the City Council does hereby give notice of its intention to initiate proceedings to amend the Comprehensive Land Use Ordinance to change the text to provide the following standards for a commercial use in any residential district:

(a) A commercial use shall be permitted in a residential district by conditional use permit only.

(b) Commercial activities should be encouraged that serve the direct needs of the surrounding neighborhood and are not inconsistent with its character such as convenience grocers, laundromats, dry cleaners without plant on premises, and day care centers.

(c) Commercial activities should be discouraged that do not serve the direct needs of the surrounding neighborhood or are inconsistent with its character such as restaurants, bars, bookstores, massage parlors, health clubs, general retail, automotive and appliance sales and repair, and liquor stores.

(d) Commercial activities that are in not close proximity to commercially-zoned property should be considered more favorably. A proposed commercial activity shall be considered to be in close proximity to commercially-zoned property if, the case of the R2, R2R, R3, and R4 districts, it is in within 1,000 feet of commercially-zoned property and if, in the case of the R1 District, it is within 1,500 feet of the commercially zoned property.

(e) Commercial activity within structures also used for residential purposes should be given more favorable consideration.

(f) Commercial activity within structures also serving as the principal residence of the owner of the commercial activity should be given more favorable consideration.

(g) Prior to permitting a commercial activity in a residential district, any and all factors important for the preservation of the residential character of the residential district should be considered.

(h) All commercial units shall be located on the ground floor and shall count as residential units for zoning purposes. (Thus, a property that allows 10 residential units may have two commercial units and eight residential units, but cannot have 10 residential units and two commercial units.) Residential use shall not be permitted in a designated commercial unit while it is being used for commercial purposes. Permitted commercial units shall fully comply with all health, safety and fire codes.

(i) In order to encourage neighborhood commercial use, a priority permit process shall be established for hearing conditional use permit applications for commercial uses in residential districts. The priority permit process shall be described in any zoning regulation summaries distributed to the public.

(j) A conditional use permit may be denied notwithstanding its compliance with the factors set forth above at the discretion of the decision-making body. The expressed views of those who reside in surrounding neighborhoods shall be seriously considered. In granting any conditional use permit, conditions shall be imposed that are reasonably necessary to accommodate the concerns of residents of the surrounding neighborhoods.

SECTION 14. Pending final determination of the proceedings initiated pursuant to Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13 of this Resolution, no development shall be approved pursuant to Section 5 of Ordinance Number 1220 (CCS) that is inconsistent with the changes proposed in such sections.

SECTION 15. No development in any commercial or industrial district shall be approved pursuant to Section 5 of Ordinance Number 1220 (CCS) unless the applicant agrees to comply with the following conditions of permit approval:

(a) For developments of under 7,500 square feet of adjusted floor area, an Arts and Social Service Fee of 1.5% of the total project costs.

(b) For developments of between 7,500 and 20,000 square feet of adjusted floor area, one housing unit for each 5,000 square feet of adjusted floor area or an in lieu fee of 6.5% of the total project cost in addition to the requirements of subdivision (a) of this Section. The housing shall be mix of bedrooms and shall be affordable to low and moderate income persons.

(c) For developments of between 20,001 and 40,000 square feet of adjusted floor area, a traffic and emission abatement plan which includes the use of mass transit in addition to the requirements of subdivisions (a) and (b) of this Section.

(d) For developments of between 40,001 and 70,000 square feet of adjusted floor area, a day care center available and affordable by all economic segments of the community or other community space in addition to the requirements of subdivisions (a), (b), and (c) of this Section.

(e) For developments of greater than 70,000 square feet of net usuable floor area, open space in addition to the requirements of subdivisions (a), (b), (c), and (d) of this Section.

(f) A condition of approval of any application subject to this Section shall be that the applicant submit a plan prior to the issuance of a building permit as to the manner of meeting the requirements of this Section, which Plan shall be approved by the Planning Commission or City Council on review thereof.

(g) For purposes of this Section, in addition to new construction, development includes both renovation and change of use when the total project cost of such renovation or change of use exceeds $ 350,000. There shall be excluded from total project cost the cost of bringing a building into compliance with the City's fire safety and seismic safety ordinances.

(h) For purposes of this Section total project cost includes the cost of land acquisition (excluding financing costs) and the cost of construction (excluding architectural, engineering and other planning fees and financing costs), except in the case of a renovation or change of use, total project cost includes only the cost of construction.

(i) Any Arts and Social Service Fee shall be paid into an Arts and Social Services Fund which shall be used to provide arts and social services in the community and any in lieu fees for housing shall be paid to the Housing Authority of the City of Santa Monica to provide for low and moderate income housing.

(j) This Section does not apply to the CM Special Main Street Commercial District.

SECTION 16. No development in the CM Special Main Street Commercial District shall be approved pursuant to Section 5 of Ordinance Number 1220 (CCS) unless the applicant agrees to comply with the following conditions of permit approval:

(a) Payment of a development fee calculated as follows:

ADJUSTED FLOOR AREA (SQUARE FEET)	FEE EQUAL TO FOLLOWING PERCENTAGE OF TOTAL PROJECT COST
0 - 2,000	1.5%
2,001 - 5,000	5.0%

5,001 - 10,000	6.0%
10,001 - 20,000	8.0%
20,001 - 40,000	9.0%
40,001 - 50,000	10.0%
50,001 -	12.0%

(b) The development fee shall be reduced by 5% for each credit (up to a maximum of 20) as follows:

CREDIT WEIGHT	ATTRIBUTE
1	Height, floor area below maximum permitted (1 story or 25% floor area)
2 for 6 spaces plus 1 for each additional 3 spaces to a maximum of 5 Credits	Provision of more parking than required
1 - 7	1 Credit for each 10% over the required 30% adjusted floor area community oriented occupancy
1 for each 10% to total employment to a maximum of 5 Credits	Santa Monica resident employees
2	Alternative Energy
4	Mixed Use: residential with commercial (residential minimum of 30% of adjusted floor area)
10 Credits for each 20% of adjusted floor area	Mixed Use: residential affordable to low and moderate income persons (10 Credits for each 20% of adjusted floor area) area)

(c) For purposes of this Section, in addition to new construction, development includes both renovation and change of use.

(d) For purposes of this Section total project cost includes the cost of land acquisition (excluding financing costs) and the cost of construction (excluding architectural, engineering and other planning fees and financing costs), except in the case of a renovation or change of use, total project cost includes only the cost of construction.

(e) Any development fees paid pursuant to this Section shall be placed in a Special Main Street Fund and be used only to provide parking, art, social services, housing, and other community uses in the the CM Special Main Street Commercial District.

SECTION 17. No demolition of any residential, recreational, or social service use shall be approved pursuant to Section 5 of Ordinance Number 1220 (CCS) unless the demolition is part of a development that will replace the residential, recreational, or social service use to be demolished.

SECTION 18. Nothing contained in this Resolution shall permit a permit being issued pursuant to Section 5 of Ordinance Number 1220 (CCS) for a project not currently permitted for the district in which the property is located by the Comprehensive Land Use Ordinance.

SECTION 19. This Resolution shall be of no further force or effect after the date of expiration of Ordinance Number 1220 (CCS).

SECTION 20. The City Clerk shall certify to the adoption of this Resolution, and thenceforth and thereafter the same shall be in full force and effect.

APPROVED AS TO FORM:

Robert M. Myers

ROBERT M. MYERS
City Attorney

ADOPTED AND APPROVED THIS 27th DAY

OF October, 1981.

Ruth Yannatta Goldway

MAYOR

I HEREBY CERTIFY THAT THE FOREGOING RESOLUTION NO. 6385 WAS DULY ADOPTED BY THE CITY COUNCIL OF THE CITY OF SANTA MONICA AT A REGULAR MEETING THEREOF HELD ON October 27, 1981 BY THE FOLLOWING COUNCIL VOTE:

AYES:	COUNCILMEMBERS:	Conn, Edwards, Press, Zane Mayor Yannatta Goldway
NOES:	COUNCILMEMBERS:	Reed
ABSENT:	COUNCILMEMBERS:	Jennings
ABSTAIN:	COUNCILMEMBERS:	None

ATTEST:

CITY CLERK

CA:RMM:r
City Council Meeting 6-1-82 Santa Monica, California

ORDINANCE NUMBER 1251(CCS)

(City Council Series)

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA EXTENDING WITH MODIFICATIONS INTERIM DEVELOPMENT PROCEDURES

THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES ORDAIN AS FOLLOWS:

SECTION 1. Findings and Purpose. The City Council finds and declares:

(a) The City's zoning, planning, subdivision, and building regulations are under comprehensive review and revision in order to ensure that development is consistent with the public peace, health, and safety.

(b) There exists within the City a housing crisis because of the serious shortage of housing affordable by persons and families of low and moderate income. New housing developments in the City have committed scarce land resources to providing luxury housing unaffordable to most residents of the City.

(c) The new jobs created by commercial developments in the City have aggravated the housing crisis by generating additional demands on the limited supply of housing.

(d) The City adopted a housing element pursuant to Government Code Section 65302(c) on December 16, 1975. The housing element has not been revised even though the California Department of Housing and Community Development found on April 26, 1976, that the housing element failed to comply with state law. In addition, the housing element does not meet the guidelines adopted by the California Department of Housing and Community Development on December 7, 1977, and located in Subchapter 3 (commencing with Section 6300) of Chapter 6 of Part 1 of Title 25 of the California Administrative Code.

(e) State planning law requires that all cities adopt a housing element meeting the requirements of Government Code Sections 65580-89 on or before October 1, 1981. Although this deadline is past, the City is diligently proceeding with revising its housing element to meet these requirements.

(f) Commercial and residential development in the City has not taken into account the demand for additional police and protective services, traffic, energy conservation, sewage capacity, and the interests of adjoining residential neighborhoods.

(g) The industrial base of the City has been diminishing as already scarce industrial land is being rapidly developed with commercial uses.

(h) On April 22, 1981, the City Council adopted Ordinance Number 1205 (CCS) creating an Emergency Building Moratorium on commercial and residential development. On

April 28, 1981, the City Council adopted Ordinance Number 1207 (CCS) readopting the Emergency Building Moratorium with amendments. The Emergency Building Moratorium expired on October 1, 1981.

(i) Three citizen task forces have made detailed recommendations to the City Council on residential development, commercial and industrial development, and permit processing. The reports recommend substantial changes in various planning and zoning requirements to ensure that development is consistent with the public peace, health, and safety.

(j) On Sepember 1, 1981, the City Council adopted Ordinance Number 1220 (CCS) establishing interim permit procedures. The interim permit procedures have ensured that development is consistent with the public peace, health, and safety.

(k) On October 27, 1982, the City Council adopted Resolution Number 6385 (CCS) declaring its intention to change the zoning.

(l) The Planning Commission has held numerous hearings on the proposed zoning changes. As a result of these hearings, it is apparent that the rezoning anticipated by Resolution Number 6385 (CCS) cannot be completed without additional studies.

(m) The City has undertaken a study on the impact of commercial development and is studying development fees and exactions.

(n) The land use element of the general plan was adopted in 1958 and has not been amended or revised. In order to ensure that zoning is consistent with the needs of community, it is necessary and desirable to revise the land use element of the general plan so that it is consistent with current land uses and reflects community needs for a balanced community in the future.

(o) Pending completion of these studies, it is important that development procedures ensure that development is consistent with the public health, safety and welfare, the orderly development of the community, and the economic stability of the community.

SECTION 2. Subdivisions. Until such time as the City Council adopts a revised housing element:

(a) No application for approval of a Tentative Tract or Parcel Map shall be accepted for processing.

(b) Pursuant to Government Code Section 66473.5, no Tentative Tract or Parcel Map for which application has been made shall be approved.

(c) No extension of any Tentative Tract or Parcel Map shall be granted pursuant to Government Code Section 66452.6.

SECTION 3. Land Use Element. The Planning Department and Planning Commission shall prepare a revised land use element of the General Plan. The proposals for zoning changes contained in Resolution Number 6385 (CCS) shall be considered in, but shall not limit, the revision of the land use element. Resolution Number 6385 (CCS) shall no longer operate as a resolution of intention to change zoning.

SECTION 4. Development Permitted. The following development is permitted in the City of Santa Monica without a development permit under Section 6:

(a) The erection, construction, enlargement, demolition, or moving of, and excavation and grading for, any one-family dwelling in the R-1 One-Family Residential District and the alteration, repair, improvement of, enlargement, or addition to any one-family dwelling in any other district.

(b) The erection or construction of, and excavation and grading for, any multiple dwelling intended as rental housing for persons and families of low or moderate income or for senior citizens, which is financed by any federal or state housing assistance or owned by any religious or other non-profit organization.

(c) The alteration, repair, improvement of or addition to, any building or structure, unless the total gross floor area of the building or structure will be enlarged by greater than 10%.

(d) The conversion to condominiums of any multiple dwelling that has a final subdivision map prior to October 1, 1981, and has received either a removal permit or a vested rights determination from the Santa Monica Rent Control Board.

(e) Public works projects of the City of Santa Monica.

(f) Signs.

(g) The erection, construction, enlargement, demolition, moving, or conversion of, and excavation and grading for, any building or structure for which a vested right determination is obtained pursuant to Section 7 of this ordinance.

(h) The erection, construction, enlargement, demolition, moving, or conversion of, and excavation and grading for, any building or structure for which a vested right determination or hardship was obtained under the Emergency Building Moratorium or Ordinance Number 1220 (CCS), provided that the conditions imposed in making any such determination are satisfied and provided that the building permit has not expired pursuant to the provisions of the Building Code of the City of Santa Monica.

(i) The erection, construction, enlargement, demolition, moving, or conversion of, and excavation and grading for, any building or structure for which a building permit was lawfully issued between April 23, 1981, and September 30, 1981, or for which an exemption was provided by Section 3(e) of Ordinance Number 1205 (CCS) or Ordinance Number 1207 (CCS), provided that the building permit has not expired pursuant to the provisions of the Building Code of the City of Santa Monica.

(j) Any project for which an exemption determination was made under Section 3(b) of Ordinance Number 1205 (CCS) or Ordinance Number 1207 (CCS), provided that the building permit has not expired pursuant to the provisions of the

Building Code of the City of Santa Monica.

(k) The erection, construction, enlargement, demolition, moving, or conversion of, and excavation and grading for, any building or structure for which a development agreement is approved by the City Council or for which an interim development permit was granted under Ordinance Number 1220 (CCS).

(l) A change of use that does not involve more than $ 100,000 in improvements or renovations and which is determined by the Director of Planning to be consistent with the purposes of this ordinance.

(m) The erection, construction, enlargement, demolition, moving, or conversion of, and excavation and grading for, any residential building or structure for which a tentative subdivsion map is approved after the date of adoption of this ordinance in conformity with the revised housing element to be adopted.

SECTION 5. Permits Authorized. No demolition permit, building permit, or other permit, including Architectural Review Board approval but excluding Final Tract Map approval, shall be issued for any development not specifically authorized by Sections 4 or 6 of this ordinance. No building permit issued prior to April 22, 1981, for which stop work orders are in effect shall be valid unless such development is permitted pursuant to Sections 4 or 6 of this ordinance.

SECTION 6. Permit Procedure. The erection, construction, enlargement, demolition, moving, change of use, or conversion of, and excavation and grading for, any building or structure not authorized by Section 4 of this ordinance may be approved, disapproved, or conditionally approved under the following procedures:

(a) Application for the approval of a development under this Section shall be made with the Planning Director. Upon receipt of such application, the Planning Director shall require such additional copies, materials or information as may be necessary for proper evaluation thereof, and shall place the matter before the Planning Commission at the earliest practicable meeting thereof. The matter shall be set for public hearing in accordance with the provisions of Santa Monica Municipal Code Section 9148.

(b) Following review and evaluation, the Planning Commission or the City Council upon appeal or review shall approve, disapprove, or conditionally approve each application and require that written notice of such determination be communicated to the applicant and appropriate city officials.

(c) In approving or conditionally approving any application, the Planning Commission or City Council upon appeal or review shall find that:

(1) The development is consistent with the findings and purpose of this ordinance.

(2) The existing and/or proposed rights-of-way for both pedestrian and automobile traffic will be adequate to accommodate the anticipated results of the proposed development including off-street parking facilities and access thereto.

(3) The existing and/or proposed public and/or

private health and safety facilities (including, but not limited to, sanitary, sewers, storm drains, fire protection devices, protective services, and public utilities) will be adequate to accommodate the anticipated results of the proposed development.

(4) The proposed plans comply with existing regulations contained in the Municipal Code.

(5) The proposed development will not prejudice the ability of the City to adopt a revised land use element. A proposed development will not prejudice the ability of the City to adopt a revised land use element if the development is in substantial compliance with Resolution Number 6385 (CCS).

(d) In making its determination, the Planning Commission or the City Council upon appeal or review may attach such conditions as it deems necessary to assure that the criteria set forth in subdivision (c) of this section are accomplished, including, but not limited to, the establishment of height limits, permitted uses, bulk limits, setbacks and parking requirements and the requirement of dedications for necessary or planned right-of-way or improvement. In imposing conditions, the Planning Commission or the City Council on appeal shall specifically consider the relationship between the benefit conferred on the City and the burden on the public created by the development.

(e) The approval, disapproval, or conditional approval by the Planning Commission of any application under this section may be appealed or reviewed in the manner set forth in Santa Monica Municipal Code Section 9148.

SECTION 7. Vested Rights Process.

(a) Any person claiming a vested right to be exempt from Section 6 of this ordinance must substantiate the claims in a proceeding under this section. In such a proceeding, the person seeking the vested right shall have the burden of proof.

(b) Claims of vested rights shall be determined by the City Council based upon staff recommendations. Claims shall be filed on a form approved by the City Attorney. The City Council shall, within 45 days of the date of filing of a claim, determine whether to grant, deny, or refer the claim to a hearing examiner for such determination as the City Council deems necessary. A claim referred to a hearing examiner shall be decided by the City Council not later than the adjournment of the second regular City Council meeting thereafter. Decisions of the City Council shall be reviewable by writ of mandamus, subject to the 90 day time limitation set forth in Santa Monica Municipal Code Section 1400.

(c) A vested right determination can be granted only if the claimant can demonstrate that it would have been granted a vested right determination from the Emergency Building Moratorium adopted on April 22, 1981, had it applied for such a determination.

SECTION 8. Notice and Application Fees. Notice and application fees for hearings and appeals pursuant to Section 6 of this ordinance shall be in accordance with Ordinance Number 1230 (CCS).

SECTION 9. Expiration. This ordinance shall remain in effect until 90 days after the date the City Council adopts a revised land use element after which time it shall be of no further effect and shall be deemed repealed.

SECTION 10. Inconsistent Provisions. Any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to affect the provisions of this ordinance.

SECTION 11. Severability. If any section, subsection, sentence, clause, or phrase of this ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the ordinance. The City Council hereby declares that it would have passed this ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

SECTION 12. Execution. The Mayor shall sign and the City Clerk shall attest to the passage of this ordinance. The City Clerk shall cause the same to be published once in the official newspaper within 15 days after its adoption. The ordinance shall become effective 30 days from its adoption.

APPROVED AS TO FORM:

Robert M. Myers
ROBERT M. MYERS
City Attorney

ADOPTED AND APPROVED THIS 1st DAY OF June, 1982.

Ruth Yannatta Goldway
MAYOR

I HEREBY CERTIFY THAT THE FOREGOING ORDINANCE, NO. 1251 (CCS), WAS DULY AND REGULARLY INTRODUCED AT A MEETING OF THE CITY COUNCIL ON THE 25th DAY OF May, 1982; THAT THE SAID ORDINANCE WAS THEREAFTER DULY ADOPTED AT A MEETING OF THE CITY COUNCIL ON THE 1st DAY OF June 1982 BY THE FOLLOWING COUNCIL VOTE:

AYES: COUNCILMEMBERS: Conn, Edwards, Press, Zane and Mayor Yannatta Goldway

NOES: COUNCILMEMBERS: Reed

ABSENT: COUNCILMEMBERS: Jennings

ABSTAIN: COUNCILMEMBERS: None

ATTEST:

Connie McNeely
CITY CLERK

6-A

FEB 2 3 1982

CA:RMM:r
City Council Meeting 2-23-82 Santa Monica, California

STAFF REPORT

TO: Mayor and City Council

FROM: City Attorney

SUBJECT: Housing Incentive and Development Agreement Between Harris Toibb and the City of Santa Monica

On February 9, 1982, the City Council introduced for first reading an ordinance approving a housing incentive and development agreement with Harris Toibb. The ordinance is now presented to the City Council for adoption.

RECOMMENDATION

It is respectfully recommended that the City Council adopt the accompanying ordinance.

PREPARED BY: Robert M. Myers, City Attorney

CA:RMM:r
City Council Meeting 2-23-82 Santa Monica, California

ORDINANCE NUMBER ______

(City Council Series)

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA APPROVING HOUSING INCENTIVE AND DEVELOPMENT AGREEMENT BETWEEN HARRIS TOIBB AND THE CITY OF SANTA MONICA

THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES ORDAIN AS FOLLOWS:

SECTION 1. The housing incentive and development agreement attached hereto and incorporated by reference between Harris Toibb and the City of Santa Monica, a municipal corporation, is hereby approved.

SECTION 2. Each and every term and condition of the housing incentive and development agreement approved in Section 1 of this ordinance shall be and is made a part of the Santa Monica Municipal Code and any appendices thereto. The City Council of the City of Santa Monica finds that the public necessity, public convenience, and general welfare require that any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this housing incentive and development agreement, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to make fully effective the provisions of this housing incentive and development agreement.

SECTION 3. Any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to affect the provisions of this ordinance.

SECTION 4. If any section, subsection, sentence, clause, or phrase of this ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the ordinance. The City Council hereby declares that it would have passed this ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

SECTION 5. The Mayor shall sign and the City Clerk shall attest to the passage of this ordinance. The City Clerk shall cause the same to be published once in the official newspaper within 15 days after its adoption. The ordinance shall become effective 30 days from its adoption.

APPROVED AS TO FORM:

Robert M. Myers

ROBERT M. MYERS
City Attorney

HOUSING INCENTIVE AND DEVELOPMENT AGREEMENT

between

HARRIS TOIBB

and

THE CITY OF SANTA MONICA, CALIFORNIA

CONTRACT NO. __ ______ (CCS)

HOUSING INCENTIVE AND DEVELOPMENT AGREEMENT

This Development Agreement is made, entered into and is effective on this date, ____________, 1982, at Santa Monica, California.

RECITALS

This Agreement is made with reference to the following facts:

A. Parties.

The parties to this Agreement are:

1. The City of Santa Monica, a municipal corporation (hereinafter the "CITY") by and through its duly elected and serving Santa Monica City Council (hereinafter referred to as the "COUNCIL"); and

2. Harris Toibb, a resident of the City of Santa Monica (hereinafter referred to as the "OWNER"), and his successors in interest.

B. Description of Real Property.

The owner of the real property which is the subject of this Agreement is situated in the City of Santa Monica, County of Los Angeles, California, commonly known as

1034-1050 4th Street, Santa Monica, California (hereinafter referred to as the "4TH STREET PROPERTY" or the "SITE"), is described as Tract No. 33579, and is more particularly described as:

> Lots G, H, I and J in Block 73 of Santa Monica, as per map recorded in Book 3, Page 80 and in Book 39, Page 45 of Miscellaneous Records of the County of Los Angeles, State of California.

The SITE is located at the easterly border of the Coastal Zone within an R-4 Multiple Residential District, which permits condominium use.

C. Interest of OWNER.

OWNER represents that he has legal and equitable interests in the 4TH STREET PROPERTY, and that all other persons holding legal or equitable interests in the 4TH STREET PROPERTY, if any, are to be bound by this Agreement.

D. Description of Project.

OWNER has proposed to COUNCIL a development plan (the DEVELOPMENT PLAN) for the 4TH STREET PROPERTY, providing for the demolition and/or removal of existing structures, and the construction of a new four-story, 42-unit condominium building, of which fifteen (15) [36% of the PROJECT] will be apartment units having rents set to be affordable to low- and moderate-income households. The improvement of the 4TH

STREET PROPERTY as provided in the DEVELOPMENT PLAN is referred to in this Agreement as the "4TH STREET PROJECT", and is described below more fully.

E. CITY's Prior Proceedings Affecting PROJECT.

On or about September 18, 1978, the CITY approved and issued to OWNER Tentative Tract Map number 33579, for a six-story, 42-unit condominium building on the 4TH STREET PROPERTY. On April 9, 1981, the Santa Monica Rent Control Board granted Removal Permit Number 074R, permitting the demolition of existing structures on the 4TH STREET PROPERTY, in accordance with several conditions. Said proceedings are described in the Rent Control Board files, to which reference is made for further particulars.

On October 27, 1981, the COUNCIL approved OWNER's DEVELOPMENT PLAN, and authorized the City Attorney to negotiate this Agreement, in connection with the COUNCIL granting OWNER's Claim Number M-071 [an Application for Hardship Determination, and Claim for Vested Rights and Exemption Status]. Said Council proceedings are described in the files of the COUNCIL, to which reference is made for further particulars.

F. Development Agreements.

CITY intends to enter into binding Development Agreements, pursuant to the provisions of State law, including Government Code Section 65864 et seq., and pursuant to the CITY's Charter.

G. Housing Incentive Agreements.

Government Code Sections 65915-65918 authorize the CITY to enter into binding Housing Incentive Agreements with persons having legal or equitable interest in real property, where the owner agrees to construct at least 25% of the total units of the housing development affordable to households of low- or moderate-income. Pursuant to said Code Sections, the CITY is empowered to grant OWNER incentives for the 4TH STREET PROJECT, including but not limited to:

1. A "density bonus" by way of a density increase of at least 25% over the otherwise allowable residential density under applicable zoning ordinance;

2. Exemption of the development "from any provision of local ordinances which may cause an indirect increase in the cost of the housing units to be developed"; and

3. The CITY may otherwise "contribute significantly to the economic feasibility of low- and moderate-income housing in the proposed housing developments."

H. Incentives.

The CITY wishes to comply with the intent of Government Code Sections 65582 and 65583, by encouraging cooperative participation of government and the private sector in an effort to expand housing opportunities and accommodate the housing needs of all economic levels, and to assist in the development of adequate housing to meet the needs of low- and moderate-income households by way of "provision of regulatory concessions and incentives."

I. Public Interest.

The COUNCIL confirms its findings and determinations that this AGREEMENT with OWNER is consistent with the general plan, is in the best interest of the CITY, and will promote the public peace, health and safety.

J. Council Authorization.

On ____________, 1982, the COUNCIL adopted Ordinance Number _______ (CCS), approving this Agreement with OWNER, and authorized the City Manager to execute same on behalf of the CITY.

AGREEMENT

IN WITNESS WHEREOF, and in consideration of the performance of the mutual covenants herein contained, and delivery of each and all of the considerations hereinbelow set forth, the parties agree as follows:

1. The Project.

OWNER proposes to cause the following works of improvement on the 4TH STREET PROPERTY (hereinafter referred to as the "4TH STREET PROJECT"):

A. Remove from the rental market all existing rental units on the SITE, in accordance with Removal Permit No. 074R;

B. Demolish and/or remove all existing structures on the SITE; and

C. Construct a single four-story building on the SITE, complying with Tentative Tract Map No. 33579, consisting of forty-two (42) condominium units and a subterranean parking garage in the approximate configuration of the "footprint" attached as Exhibt "A", and as is more fully described hereinbelow.

2. CITY Approval of PROJECT.

Notwithstanding present, changed or new CITY Charter provisions, Codes, Ordinances, General Plans, Housing Elements, Local Coastal Plan, Zoning, Planning, Subdivision, Building Regulations and Standards, and/or other enactments (hereinafter collectively referred to as "Property Development Standards"), the CITY hereby approves the subject condominium 4TH STREET PROJECT pursuant to Tentative Tract Map No. 33579 (as it may from time to time be amended by OWNER) as follows:

A. Height.

(1) The subject building shall have no more than four (4) stories;

(2) The building height limit shall be fifty (50) feet, except as otherwise provided herein;

(3) The fifty (50) foot height limit shall be measured from three (3) feet above the highest grade level on the SITE, up to the ceiling of the fourth floor penthouse;

(4) The fifty (50) foot height limit shall exclude all penthouse or roof structures for the housing of elevators, stairways, tanks, ventilating fans or similar equipment required to operate and maintain the building, and fire or parapet walls, mansards, skylights, steeples, roof signs, flag poles, chimneys, smoke stacks, or other similar structures and rooftop patios which may be erected above said height limit;

(5) The height of subterranean garage may extend to three (3) feet above the highest grade level.

B. Yards.

(1) The front yard shall have a minimum depth (set back) of twenty (20) feet;

(2) The rear yard shall have a minimum depth (set back) of five (5) feet, measured from the mid-line of the existing rear alleyway;

(3) The northerly side yard shall have a minimum width of eight (8) feet; and

(4) The southerly side yard shall have a minimum width of eight (8) feet.

C. Lot Coverage (Density).

The area occupied by buildings and structures may exceed fifty percent (50%) of, and shall not exceed sixty-six percent (66%) of the total lot area. The following areas not part of the dwelling units may project into the front, rear and side yards, and in calculating such lot coverage, the following areas shall be excluded: (1) the subterranean garage; (2) the width up to six (6) feet of all exterior, unenclosed walkways, stairways, balconies, patios, porches, and platforms; (3) any eave, canopy or roof covering same; and (4) fireplace flues, ventilation ducts, and greenhouse windows.

D. Condominium Units.

(1) The Building shall contain a total of no more than forty-two (42) residential condominium units;

(2) The first story shall contain no less than fifteen (15) rental units ("FIRST FLOOR UNITS");

(3) The second, third and fourth stories shall contain the remaining twenty-seven (27) units;

(4) With regard to the 15 FIRST FLOOR UNITS:

a. There will be four (4) two-bedroom units, and eleven (11) one-bedroom units;

b. Eight (8) units will have base rents set to be affordable for low-income households, consisting of two (2) two-bedroom units and six (6) one-bedroom units;

c. Seven (7) units will have base rents set to be affordable for moderate-income households, consisting of two (2) two-bedroom units and five (5) one-bedroom units;

d. For purposes of this Agreement:

(i) Median income means the median income for the County of Los Angeles as determined by the United States Department of Housing and Urban Development, as may be adjusted or revised from time to time;

(ii) Low income household means a household with an annual income of less than 80% of median income;

(iii) Moderate income household means a household with an annual income of less than 120% of median income.

(iv) A unit referred to herein is affordable if the annual rent does not exceed 25% of annual income.

e. All 15 units will not be exempt from the provisions of §1801(c) of the Rent Control Charter Amendment;

f. The 15 FIRST FLOOR UNITS shall be provided as affordable rental units for forty (40) years or the life of the 4TH STREET PROJECT, whichever is greater.

g. OWNER shall maintain such records as are required by CITY to verify eligibility for housing provided hereunder. The records shall be open for inspection and copying by CITY upon five (5) days' advance notice by CITY.

(5) OWNER shall record a Declaration of Restrictions (Deed Restrictions) to be recorded in the chain of title of the 4TH STREET PROPERTY, which will contain the provisions of Paragraphs 2D(1) -2D(4), inclusive. If "existing tenants" do not qualify as low-income households, and the "existing tenants" accept occupancy in the FIRST FLOOR UNITS, this condition shall be waived until such time as sufficient units are vacated by "existing tenants". Said Deed Restrictions shall be in a form approved by the City Attorney of CITY and shall be recorded prior to demolition of existing structures on the SITE.

(6) The following named "existing tenants" shall each have a right of first refusal to rent a FIRST FLOOR UNIT, provided such person complies with the Notice to Quit described in subparagraph D(11) below:

(a) Patty Callucutt, 1034 4th Street, Santa Monica, California 90403;

(b) Michael Morales, 1034-1/2 4th Street, Santa Monica, California 90403;

(c) Mrs. Meeks, 1038 4th Street, Santa Monica, California 90403;

(d) Joe Spano, 1048-A 4th Street, Santa Monica, California 90403;

(e) Dale Miller, 1048-B 4th Street, Santa Monica, California 90403;

(f) Mary Flynn Francis, 1048-C 4th Street, Santa Monica, California 90403;

(g) Joan Boyd, 1048-D 4th Street, Santa Monica, California 90403;

(h) Sharron Gerringer, 1050-A 4th Street, Santa Monica, California 90403;

(i) Diane Glasser, 1050-C 4th Street, Santa Monica, California 90403;

(j) Perry Morey, 1050-D 4th Street, Santa Monica, California 90403.

The right of first refusal shall be personal to each such tenant, and not subject to assignment or transfer.

(7) Construction of the new units will commence within one-hundred eighty (180) days of the date of demolition of all existing units on the SITE.

(8) The OWNER will reimburse existing tenants a minimum of Three Hundred Dollars ($300.00) for reasonable expenses incurred in moving out of the existing units and back into the new units;

(9) The OWNER shall pay to the existing tenants a sum of money equal to the difference between their present rent and a reasonable rent paid by the tenants for comparable units during the period of construction of the new units, for a period not to exceed one year;

(10) As an alternative to the provisions in subparagraphs (8) and (9) above, the OWNER may pay one or more of the existing tenants a sum agreeable to each of said tenants;

(11) Pursuant to Rent Control Charter Amendment §1806(i), tenants of the existing units on the SITE may not be given notice to quit the premises until all necessary permits and approvals have been obtained for demolition of the existing

units and construction of new units on the SITE. This includes all permits and approvals required by the City of Santa Monica and the California Coastal Commission. Notice to quit shall be subject to the requirements of California Civil Code §1946, and the landlord shall specifically provide tenants with such notice no less than thirty (30) days prior to the date of required vacation of premises.

E. Subterranean Parking.

The 4TH STREET PROJECT shall include a subterranean parking garage:

(1) There shall be a minimum of eighty-two (82) off-street parking spaces;

(2) The ownership of FIRST FLOOR UNITS shall include one (1) parking space for each such unit, or more at OWNER's election;

(3) All units other than the FIRST FLOOR UNITS shall include ownership of at least two (2) spaces per unit.

F. Accessibility.

The 4TH STREET PROJECT shall be accessible to handicapped persons.

G. No Dedications.

The OWNER shall not be required to provide, and the PROJECT need not include or contain any reservation or dedication of land for public or private purposes except as otherwise provided in this Agreement.

H. Completion.

OWNER agrees to diligently prosecute to completion the construction of the 4TH STREET PROJECT.

3. Bonuses and Incentives.

Pursuant to Government Code Section 65915, CITY hereby grants OWNER the following bonuses and incentives for the 4TH STREET PROJECT, notwithstanding any present, changed or new CITY Charter provisions, Codes, Ordinances, General Plans, Specific Plans, Housing Elements, Local Coastal Plan, Zoning, Planning, Subdivision, Permits, Building Regulations and Standards, and/or other enactments ("Property Development Standards") to the contrary:

A. The CITY shall not impose any new or additional requirements or conditions on the 4TH STREET PROJECT's Final Tract Map, which are not already set forth in Tentative Tract Map No. 33579;

B. The 4TH STREET PROJECT shall have up to four (4) stories, and up to fifty (50) feet in height, and as set forth in Paragraph 2A above;

C. The front yard set back shall be a minimum of twenty (20) feet; the rear yard set back shall be a minimum of five (5) feet; the northerly side yard shall have a minimum set back of eight (8) feet, and the southerly side yard shall have a minimum set back of eight (8) feet, and as set forth in Paragraph 2B above;

D. The area occupied by buildings and structures on the 4TH STREET PROJECT may exceed present lot coverage standards up to and including sixty-six percent (66%) of the lot area, and as is set forth in Paragraph 2C above;

E. The CITY shall exempt the 4TH STREET PROJECT from minimum parking space requirements applicable to the FIRST FLOOR UNITS, so that said units shall include ownership of no less than one (1) parking space per unit;

F. The CITY shall use its best efforts to encourage financial institutions and potential lenders to provide OWNER with construction and permanent financing for the 4TH STREET PROJECT;

G. The CITY agrees to expedite and streamline the processing of permit applications for the PROJECT, as set forth hereinbelow;

H. The CITY shall exempt the 4TH STREET PROJECT from any and all requirements that bathrooms, laundry rooms and similar rooms be provided with natural ventilation by means of an openable exterior opening, and in lieu thereof, a mechanical ventilating system may be provided.

I. The CITY shall permit all lofts and mezzanines of the top floor as two-thirds (2/3) of the floor area of the room it is located in (said "room" to include the area of adjoining bathrooms, closets, stairways and other utility areas).

J. Pursuant to Government Code §65915(d), the CITY hereby exempts each and all of the FIRST FLOOR UNITS from the following provisions of local ordinance which may cause an indirect increase in the cost of the housing units to be developed; OWNER shall not be required to pay to CITY any portion of the following assessments, fees and charges directly attributable to the FIRST FLOOR UNITS, and OWNER shall be charged only a pro-rata amount [27/42] of any such assessment, fee or charge that is not directly attributable or chargeable to the FIRST FLOOR UNITS:

(1) The Condominium Permit Fee for each of the FIRST FLOOR UNITS;

(2) The Recreation and Parks Assessment;

(3) The Trees and Parkways Assessment;

(4) The Water Construction and Connection Fee;

(5) The Sewer Connection Assessment;

(6) The Sewer Conection Fee per unit;

(7) The Plumbing, Electrical, and Mechanical Permit Fees;

(8) Any required fee for street or sidewalk Resurfacing Permits or Use of Public Proprty Permits;

(9) Fees for filing by Tentative Tract Map, Final Tract Map, and amendments and modifications thereto;

(10) Other charges similar to those set forth above, which would otherwise cause an indirect increase in the cost of the FIRST FLOOR UNITS.

Nothing herein shall preclude the CITY from taking any additional action or actions to assist OWNER to construct and finance the 4TH STREET PROJECT.

4. Expedited Processing.

In order to expedite and streamline the processing of permit applications for the 4TH STREET PROJECT (pursuant to Government Code §65913 et seq.), the CITY hereby agrees:

A. The Director of Planning is hereby authorized and designated to act as a central administrator for processing any and all permits required for the development;

B. The Director of Planning, and the Santa Monica Planning Department shall consult with OWNER and its representatives, from time to time as necessary, and assist OWNER in making all development and permit applications;

C. The Director of Planning shall cooperate with OWNER in making readily available by referral, all staff that has expertise in all areas in which permits are required from the CITY, and in providing information on all permit requirements and standards;

D. The CITY agrees to consolidate hearings, whenever possible or practicable, for the purpose of minimizing the time required for OWNER to process permit applications and obtain permits necessary for the PROJECT;

E. The CITY will accept for filing the Final Tract Map and/or modifications to Tentative Tract Map No. 33579; the CITY will conditionally approve such map or maps, on condition that OWNER obtain an appropriate Coastal Permit.

F. The CITY will approve, conditionally approve, or disapprove any: (1) Final Tract Map, or (2) modifications thereto or (3) modifications to the Tentative Tract Map concerning the 4TH STREET PROJECT within sixty (60) days of the date on which completed applications for such have been received; and

G. The CITY shall approve, conditionally approve, or disapprove all development and permit applications concerning the 4TH STREET PROJECT within sixty (60) days from the date on which each such permit application has been received.

H. Failure of the CITY to act upon such respective maps and application within such sixty (60) day period shall be deemed an approval thereof.

5. Sixth Street Development.

OWNER is also the owner of that certain real property situated in the City of Santa Monica, County of Los Angeles, California, commonly known as 2616, 2616-A and 2616-1/2 6th Street, Santa Monica, California (hereinafter referred to as the "6TH STREET PROPERTY"), and more particularly described as:

> Lot 22 of Block B of Vawter's 4th Street Tract, in the City of Santa Monica, as per map recorded in Book 3, Page 92 of Maps, in the office of the County Recorder of said County.

Said PROPERTY is located inside the Coastal Zone within an R-4 Multiple Residential District. The 6TH STREET PROPERTY presently consists of a three (3) unit apartment building.

On October 22, 1981, the Santa Monica Rent Control Board granted Removal Permit No. 080R, permitting the demolition of existing structures on the 6TH STREET PROPERTY, in accordance with several conditions. Said proceedings are described in the Rent Control Board files, to which reference is made for further particulars.

As a condition to CITY's approval of the 4TH STREET PROJECT and the granting of bonuses and incentives for said PROJECT on the 4TH STREET PROPERTY, the CITY hereby requires and OWNER hereby agrees to the following terms:

A. OWNER may remove from the rental market all existing rental units on the 6TH STREET PROPERTY, in accordance with Removal Permit No. 080R, and demolish and/or remove all existing structures thereon;

B. OWNER shall construct, or cause to be constructed, an 8 unit apartment building on the 6TH STREET PROPERTY pursuant to the plans (attached hereto as Exhibit "B"), comprised as follows:

(1) There will be eight (8) one-bedroom units;

(2) Two (2) units will have base rents set to be affordable for low-income households;

(3) The remaining 6 units will have base rents set to be affordable for moderate-income households;

(4) All 8 units will not be exempt from the provisions of §1801(c) of the Rent Control Charter Amendments;

(5) The terms "median income", "low income", "moderate income", and "affordable" shall have the same meanings as set forth in Paragraphs 2D(4) and (5) above.

(6) The units shall be provided as affordable rental units for forty (40) years or the life of the 6TH STREET PROJECT, whichever is greater.

(7) OWNER shall maintain such records as are required by CITY to verify eligibility for housing provided hereunder. The records shall be open for inspection and copying by CITY upon five (5) days' advance notice by CITY.

(8) OWNER shall record a Declaration of Restrictions (Deed Restrictions) to be recorded in the claim of title of the 6TH STREET PROPERTY, which will contain the provisions of Paragraphs 5B(1) - 5B(7), inclusive. If existing tenants do not qualify as low-income households, and the existing tenants accept occupancy in one of said units, this condition shall be waived until such time as sufficient units are vacated by existing tenants. Said Deed Restrictions shall be in a form approved by the City Attorney of CITY and shall be recorded prior to demolition of the existing structures on the 4TH STREET PROPERTY.

(9) The following named "existing tenants" shall each have a right of first refusal to rent one of the new units, provided such person complies with the Notice to Quit described in Subparagraph G below:

(a) Fran Shapiro, 2616 6th Street,
Santa Monica, California 90403;

(b) Billy Larson, 2616-A 6th Street,
Santa Monica, California 90403; and

(c) Mary Beth McCarthy, 2616-1/2 6th
Street, Santa Monica, California 90403.

The right of first refusal to rent shall be personal to each such tenant, and shall not be subject to assignment or transfer.

(10) Construction of the new units will commence within one-hundred eighty (180) days of the date of the demolition of all existing units.

C. Pursuant to Government Code Section 65915, CITY hereby grants to OWNER the following bonuses and incentives for the 6TH STREET PROPERTY, notwithstanding any present, changed or new CITY "Property Development Standards" to the contrary:

(1) Each of the eight apartment units is and shall be exempt from a Building Permit Fee;

(2) The area occupied by buildings and structures may exceed present lot coverage standards up to and including sixty-six percent (66%) of the lot area;

(3) The CITY shall exempt and/or grant a variance from minimum parking space requirements, so as to permit eight (8) parking spaces (one per unit);

(4) The CITY shall exempt and/or grant a variance from maximum unit limits, so as to permit eight (8) one-bedroom, one-bath apartment units of approximately 635 square feet each.

D. The OWNER will reimburse existing tenants a minimum of Three Hundred Dollars ($300.00) for reasonable expenses incurred in moving out of the existing units and back into the new units;

E. The OWNER shall pay to the existing tenants a sum of money equal to the difference between their present rent and a reasonable rent paid by the tenants for comparable units during the period of construction of the new units, for a period not to exceed one year;

F. The OWNER may, as an alternative to the provisions in subparagraphs (D) and (E) above, pay existing tenants a sum agreeable to said tenants;

G. Pursuant to Rent Control Charter Amendment §1806(i) tenants of existing units on the 6TH STREET PROPERTY may not be given notice to quit the premises until all necessary permits and approvals have been obtained for demolition of the existing units and construction of new units on the 6TH STREET PROPERTY. This includes all permits and approvals required by the City of Santa Monica and the California Coastal

Commission. Notice to quit shall be subject to the requirements of California Coastal Commission. Notice to quit shall be subject to the requirements of California Civil Code §1946, and the landlord shall specifically provide tenants with such notice no less than thirty (30) days prior to the date of required vacation of the premises.

H. OWNER shall be required to commence construction of said 8 unit apartment building within two (2) years from the date construction commences on the 4TH STREET PROJECT. In the event OWNER defaults as to this provision, then OWNER shall forthwith quit-claim and dedicate title to the 6TH STREET PROPERTY to the CITY and shall transfer to CITY all plans for the apartment building to be built on the 6TH STREET PROPERTY. Prior to the execution of this Agreement, OWNER shall deliver to CITY a Preliminary Title Report on the 6TH STREET PROPERTY in a form satisfactory to the City Attorney of CITY.

I. The CITY agrees that all necessary and appropriate variances, density bonuses, demolition and building permits, and other permits and approvals, will be promptly issued by the CITY for the above-described project on the 6TH STREET PROPERTY, as provided in Paragraph 4 herein.

J. The CITY will use its best efforts to exempt the 6TH STREET PROPERTY from any ordinance, fee or requirement that would create an indirect expense in the cost of this housing development [pursuant to Government Code §65915, and other applicable law], as set forth in Paragraph 3J above.

6. Events of Default.

A. OWNER shall be in default under this Agreement upon the happening of one or both of the following events or conditions:

(1) If a warranty, representation or statement made or furnished by OWNER to the CITY is false or proves to be false in any material respect when it was made;

(2) OWNER has not complied with one or more of the terms or conditions of this Agreement.

B. OWNER may, at its option, and without liability, terminate this Agreement by serving written notice of termination on CITY, in the event:

(1) The COUNCIL fails or refuses to approve any tentative or final subdivision map, or modifications thereto, submitted in accordance with this Agreement, for any portion of the 4TH STREET PROJECT, within sixty (60) days after such map has been submitted to such governing body;

(2) The CITY, through its appropriate respective departments, fails or refuses to approve any variances, demolition permits, building permits, or other permits required for the 4TH STREET PROJECT described herein, within sixty (60) days after such respective application for permit has been submitted to the appropriate governing body;

(3) The 4TH STREET PROJECT is not approved by the California Coastal Commission.

(4) There are changes in the economic conditions prior to the demolition of existing units on the 4TH STREET PROPERTY, which render, in the opinion of OWNER, further development of the subject properties unprofitable to OWNER.

(5) Prior to the demolition of existing units on the 4TH STREET PROJECT, OWNER is unable to secure adequate and/or reasonable financing for the development of the 4TH STREET PROJECT;

C. Upon the occurrence of any material breach of this Agreement by CITY, OWNER shall give written notice thereof to the CITY, and CITY shall have thirty (30) days to cure said default.

In the event such default is not timely cured, OWNER may, at its option, and without liability, terminate this Agreement by serving written notice on CITY.

D. The two (2) year time period for commencing construction on the 6TH STREET PROPERTY shall be excused and extended for that additional period of time equal to the time during which:

(1) OWNER, after the first two months of its marketing and/or sales program, has not sold and closed escrows on at least eighty-five percent (85% or 23 units) of the 27 condominium units which are not FIRST FLOOR UNITS [it being the calculation of OWNER that his "break even" point on the 4TH STREET PROJECT will be upon the sale of all FIRST FLOOR UNITS and 85% of the remaining condominium units];

(2) OWNER is prevented, delayed or unable to proceed with the 4TH STREET PROJECT by reason of any of the following forces reasonably beyond the control of OWNER:

(a) war, insurrection, riot, acts of a public enemy, theft, vandalism, accident, or casualty;

(b) fire, flood, severe weather, earthquake or other acts of God;

(c) governmental restriction, litigation, or acts or failures to act of any governmental agency or entity.

(3) OWNER is prevented, delayed, or unable to proceed with the 4TH STREET PROJECT by reason of a problem in securing necessary labor, materials or tools, strikes. lockouts, delays of any contractor, subcontractor or supplier.

7. Procedure Upon Default.

A. Upon the occurrence of an event of default by OWNER, CITY may declare OWNER to be in default, and may enforce or terminate this Agreement. Prior to any declaration of default, written notice must be given to OWNER of the nature of such default, and OWNER shall have thirty (30) days to cure said default;

B. Upon any termination of this Agreement, the parties hereto shall execute an appropriate notice of termination and record same in the official records of Los Angeles County.

8. Changes in City Regulations.

The CITY agrees that, except as otherwise provided in this Agreement, the "Property Development Standards" in force at the time of the effective date of this Agreement, shall be those rules, regulations and official policies applicable to the 4TH STREET PROJECT and the 6TH STREET PROPERTY, notwithstanding any change in Property Development Standards adopted by the CITY which would otherwise affect the 4TH STREET PROJECT or the 6TH STREET PROPERTY, or conflict with this Agreement. The parties agree the foregoing:

A. Shall not apply to any changes in fire or safety standards for erection or construction of the subject building; and

B. Shall not prevent the CITY from denying or conditionally approving any subsequent development project application by a third party, on the basis of this Agreement, or on the basis of such existing or new rules, regulations and policies.

Any provisions of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this Agreement, to the extent of such inconsistencies and no further, are hereby repealed or modified to that extent necessary to effect the provisions of this Agreement.

9. Hold Harmless.

OWNER agrees to and shall hold the CITY, its officers, agents, employees and other representatives harmless from liability for damage or claims for damage for personal injury including death and claims for property damage which may arise from the direct or indirect operations of the OWNER or those of its contractor, subcontractor, agent, employee or other person acting on its behalf, which relate to the 4TH STREET PROJECT and the 6TH STREET

PROPERTY. OWNER agrees to and shall defend the CITY and its officers, agents, employees and representatives from actions for damages as described above caused or alleged to have been caused by reason of OWNER's activities in connection with the 4TH STREET PROJECT or the 6TH STREET PROPERTY, regardless of whether or not the CITY prepared, supplied or approved plans or specifications or both for the 4TH STREET PROJECT or the 6TH STREET PROPERTY.

10. Attorneys' Fees.

In the event OWNER is required to commence litigation or other proceedings to enforce any of the provisions of this Agreement, and OWNER is the prevailing party, in addition to such other relief as may be granted, OWNER shall be entitled to a reasonable sum as and for his attorneys' fees in such litigation which shall be determined by the Court in such litigation, or in a separate action brought for that purpose.

11. Mutual Release and Dismissal of Lawsuits.

A. Within 30 days after the execution of this Agreement by CITY, OWNER shall cause to be filed a dismissal with prejudice in each and every lawsuit filed by OWNER in which CITY or the SANTA MONICA RENT CONTROL BOARD is named as a party.

B. OWNER and the CITY each does hereby release and discharge the other, their respective heirs, executors, assigns, agents, employees, representatives and all other persons of and from all claims, demands and causes of action of every kind and nature each may now know or expect to exist either in favor or against the other by reason of any matter or issue as of the date of this Agreement.

C. Each of the parties hereby waives any and all rights which each of them may have under the provisions of Section 1542 of the Civil Code of the State of California, which section provides as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known to him must have materially affected his settlement with the debtor."

12. Amendment of Agreement.

This Agreement may be amended or modified in whole or in part only by mutual written consent of the parties.

13. General Provisions.

A. Waiver. The waiver by any party of a breach of any provision of this Ageement by any other party shall not operate or be construed as a waiver of any subsequent breach of any type.

B. Binding Effect. All of the terms of this Agreement shall be binding upon, and inure to the benefit of, and be enforceable by, the parties hereto and their spouses, families, heirs, executors, administrators, employees, agents, officers, directors, transferees, predecessors, successors in interest, assignors and/or assigns, and all persons claiming by or through such respective parties.

C. Assignment. This Agreement shall not be severable from OWNER's interest in the 4TH STREET PROJECT. Any transfer of the 4TH STREET PROJECT shall automatically operate to transfer the benefits and burdens of this Agreement. OWNER may freely sell, transfer, exchange, encumber, or otherwise dispose of his interests in the 4TH STREET PROJECT and/or the 6TH STREET PROPERTY without the consent of the CITY.

D. Relationship Of Parties. It is understood the contractual relationship between the CITY and OWNER is such that OWNER is an independent contractor, and not the agent of the CITY.

E. Execute Other Documents. Each of the parties hereto specifically agrees to execute and deliver such other and further instruments, documents and things as may reasonably be required to effectuate the terms, conditions and objectives of this Agreement.

F. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be a duplicate original, but all of which, together, shall constitute one and the same instrument.

G. Notices. Any notices to be given hereunder by either party to the other may be effected by personal delivery, in writing, or by registered or certified mail, postage prepaid, with return receipt requested. Mailed notices shall be addressed as follows:

NAME	ADDRESS
OWNER	Harris Toibb 307 21st Street Santa Monica, CA 90401
CITY OF SANTA MONICA	ATTN: City Attorney City Hall 1685 Main Street Santa Monica, CA 90401

Each party hereto may change its address by giving written notice to every other party in accordance with the terms of this Paragraph. Notices delivered personally shall be deemed communicated as of the date of actual receipt; notices delivered by mail shall be deemed communicated as of the date of the first attempted delivery thereof by the Post Office.

14. Duration of Agreement.

This Agreement shall expire forty (40) years from the date of COUNCIL approval.

15. Recording of Agreement. The parties hereto shall cause this Agreement, or a Memorandum thereof, to be recorded in the official records of Los Angeles County.

IN WITNESS WHEREOF, this Agreement has been executed by the parties on the day and year first above written.

OWNER

____
HARRIS TOIBB

CITY OF SANTA MONICA,
a Municipal Corporation

By______________________
JOHN ALSCHULER,
City Manager

Attest:

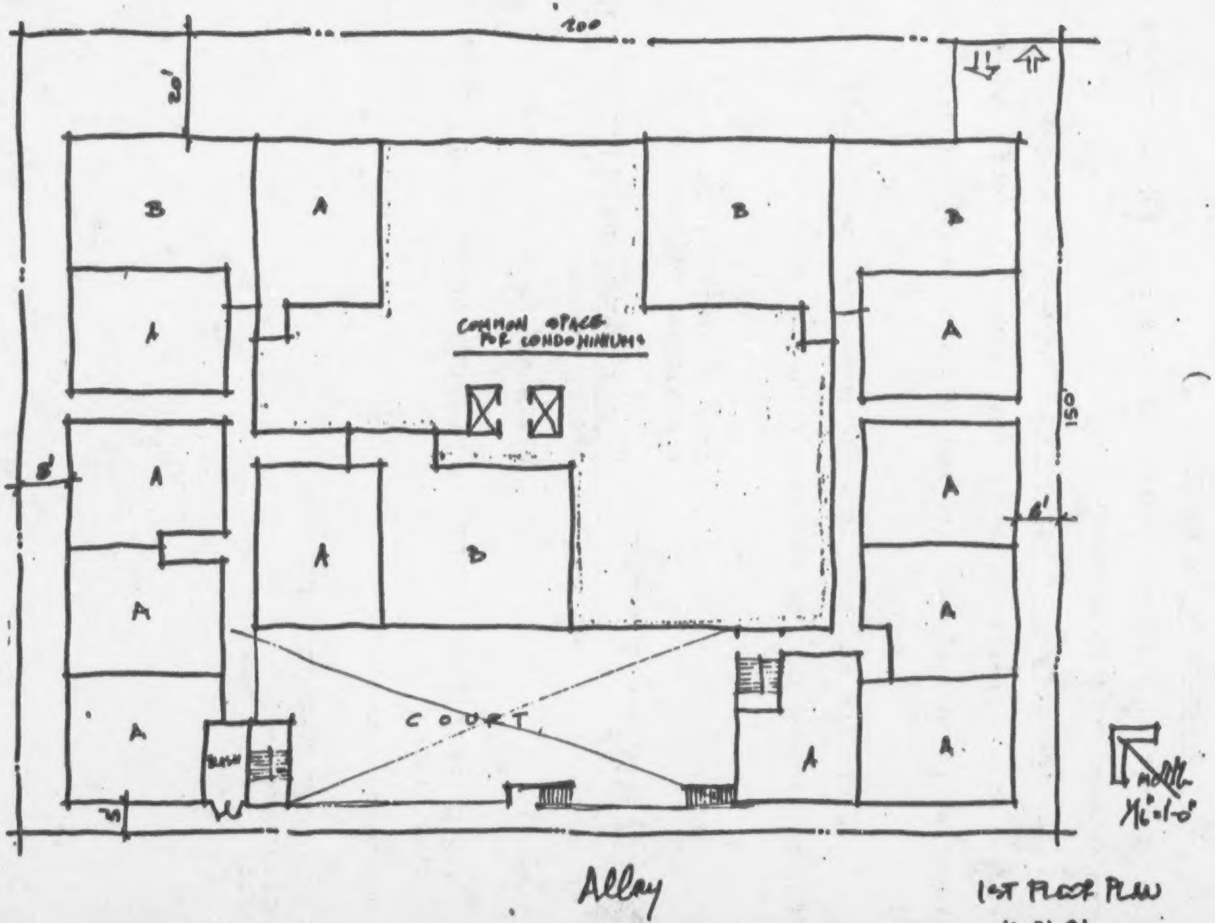
By______________________
ANN M. SHORE,
City Clerk

SANTA MONICA CITY COUNCIL

By______________________
RUTH YANNATTA GOLDWAY,
Mayor

Approved as to Form:

____
ROBERT M. MYERS,
City Attorney,
City of Santa Monica


200
20'
150
8'
6'
B
A
B
B
A
A
COMMON SPACE FOR CONDOMINIUMS
A
A
A
B
A
A
A
COURT
A
A
Alley
North
1/16"=1'-0"

1st FLOOR PLAN

12-31-81

CA:RMM:r
City Council Meeting 1-26-82 Santa Monica, California

STAFF REPORT

TO: Mayor and City Council

FROM: City Attorney

SUBJECT: Development Agreement Between Kendall Realty Company, Inc., and the City of Santa Monica

At its meeting on December 8, 1981, the City Council re-introduced for first reading an ordinance approving a development agreement with Kendall Realty Company, Inc., for the property located at the northeast corner of Ocean Avenue and Colorado Avenue. The project has received approval from the California Coastal Commission, and the ordinance is now presented to the City Council for adoption.

RECOMMENDATION

It is respectfully recommended that the accompanying ordinance be adopted.

PREPARED BY: Robert M. Myers, City Attorney

CA:RMM:r
City Council Meeting 1-26-82 Santa Monica, California

ORDINANCE NUMBER ______

(City Council Series)

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA APPROVING DEVELOPMENT AGREEMENT BETWEEN KENDALL REALTY COMPANY, INC., DOING BUSINESS AS H.J. KENDALL ASSOCIATES AND THE CITY OF SANTA MONICA

THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES ORDAIN AS FOLLOWS:

SECTION 1. The development agreement attached hereto and incorporated by reference between Kendall Realty Company, Inc., a Nevada Corporation, doing business as H.J. Kendall Associates, and the City of Santa Monica, a municipal corporation, is hereby approved.

SECTION 2. Each and every term and condition of the development agreement approved in Section 1 of this ordinance shall be and is made a part of the Santa Monica Municipal Code and any appendices thereto. The City Council of the City of Santa Monica finds that the public necessity, public convenience, and general welfare require that any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this development agreement, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to make

fully effective the provisions of this development agreement.

SECTION 3. Any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to affect the provisions of this ordinance.

SECTION 4. If any section, subsection, sentence, clause, or phrase of this ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the ordinance. The City Council hereby declares that it would have passed this ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

SECTION 5. The Mayor shall sign and the City Clerk shall attest to the passage of this ordinance. The City Clerk shall cause the same to be published once in the official newspaper within 15 days after its adoption. The ordinance shall become effective 30 days from its adoption.

APPROVED AS TO FORM:

Robert M. Myers

ROBERT M. MYERS
City Attorney

Recording Requested By:

And When Recorded Mail To:

Space above this line for Recorder's use.

DEVELOPMENT AGREEMENT

by and between

the City of Santa Monica, California

and H. J. Kendall Associates

("Project Owner")

TABLE OF CONTENTS

PARAGRAPH **PAGE**

Recitals 1

1. Definitions 1

2. Exhibits 2

3. Description of Real Property 2

4. Interest of Property Owner 2

5. Binding Effect of Agreement 2

6. Relationship of Parties 2

7. Description of Project 3

8. Uses 3

    A. Commercial Uses 3

    B. Office and Other Commercial Uses 4

    C. Residential Housing 4

9. Affordable Housing 4

    A. Affordability 4

    B. Distribution of Units 6

    C. Verification of Eligibility 6

    D. Leasing Agreement with City 6

10. Effect and Duration of Covenants 7

11. Coastal Commission Approval 7

12. City's Approval of Project 7

13. Project Approvals 8

    A. City Permits 8

    B. Architectural Review Board Approvals 8

PARAGRAPH **PAGE**

- C. City Approval of Plans, Drawings and Related Documents 8

14. Time for Construction and Completion of Project 9
    - A. Beginning of Construction 9
    - B. Completion of Project 9
15. Certificate of Completion 9
16. Subdivision of Property 10
17. Effect of Agreement on Land Use Regulations 10
18. Periodic Review In Compliance With Agreement 10
19. Amendment Or Cancellation of Agreement 10
20. Enforcement 11
21. Subsequent Acts 11
22. Events of Default 11
23. Procedure Upon Default 11
24. Damages Upon Termination 12
25. Enforced Delay; Extension of Times of Performance 12
26. Attorneys' Fees and Costs 13
27. Hold Harmless 13
28. Arts and Social Service Fee 13
    - A. Amount and Manner of Payment 13
    - B. Alternatives to Fee 14
29. Energy Conservation 14
    - A. Solar heating 15
    - B. Operable Windows 15
    - C. Other Energy Considerations 15
30. Insurance 15

PARAGRAPH **PAGE**

31. Security Financing; Rights of Holders 15
32. Notices 15
33. Headings 16
34. Assignment 16
35. Agreement 17
36. Governing Law 17
37. Duration of Agreement 17
38. Recording of Agreement 17

DEVELOPMENT AGREEMENT

THIS AGREEMENT is entered into this __ day of ________________, 1982, by and between **Kendall Realty Co., Inc.**, a Nevada corporation, doing business in California as **H. J. Kendall Associates** (hereinafter referred to as "Property Owner") and the **City Of Santa Monica, California**, a Charter City organized and existing under the laws of the State of California (hereinafter the "City").

RECITALS

This Agreement is predicated upon the following facts:

A. Pursuant to the Charter of the City of Santa Monica, the City has the power to enter into binding development agreements for the development of real property and has duly adopted rules and regulations establishing procedures and requirements for consideration of development agreements;

B. The City intends to enter into binding development agreements with persons having legal or equitable interests in real property for the development of such property, pursuant to the City's Charter and the provisions of state law;

C. Property Owner has requested the City to consider entering into a development agreement and proceedings have been undertaken in accordance with the City's rules and regulations; and

D. The City Council of the City has found that this Development Agreement is consistent with the general plan.

NOW, THEREFORE, the parties agree:

1. **Definitions.** In this Agreement, unless the context otherwise requires:

(i) "City" is the City of Santa Monica, California.

(ii) "Project" is the development contemplated by this Agreement and which has been approved by the City.

(iii) "Property Owner" means the entity or person having a legal or equitable interest in the real property as described in paragraph 3 and includes the Property Owner's successors in interest;

(iv) "Property" is the real property referred to in paragraph 3.

2. **Exhibits.** The following documents are referred to in this Agreement and are attached hereto and made a part hereof by this reference:

Exhibit Designation	Description	Referred to in Paragraph
A	Real Property	3
B	Basic Concept Drawings	7
C	Scope of Development	7
D	Rental Schedule	9

3. **Description of Real Property.** The real property which is the subject of this Agreement is described in Exhibit "A" (hereinafter the "Property").

4. **Interest of Property Owner.** Property Owner represents that it has a legal interest in the Property and that all other persons holding legal or equitable interest in the Property are to be bound by this Agreement.

5. **Binding Effect Of Agreement.** The burdens of this Agreement bind and the benefits of the Agreement inure to the successors in interest to the parties to it.

6. **Relationship Of Parties.** It is understood that the contractual relationship between the City and Property Owner is such that the Owner is an independent contractor and not the agent of the City.

7. **Description Of Project.** Project Owner has prepared and submitted Basic Concept Drawings and a written description entitled Scope of Development depicting the elevations, site layout, basic design concepts, including maximum height and maximum size for each of the proposed buildings for the Project, and locations of ingress and egress to streets. By the adoption of the ordinance authorizing the City to enter into this Agreement, the City has approved the Basic Concept Drawings and Scope of Development. The Property shall be developed as a logical evolution of the Basic Concept Drawings and Scope of Development except as changes may be mutually agreed upon between the Project Owner and the City. The development contemplated by the Basic Concept Drawings and the Scope of Development is referred to in this Agreement as the "Project".

8. **Uses.** Project Owner covenants and agrees for itself, its successors, its assigns, and every successor in interest to the Project and any part thereof, that the Property shall be devoted to commercial, office and residential uses as herein set forth; provided, however, that this covenant as to use is merely a covenant to make the Project available for occupancy for these uses, but is not intended to be nor shall it be construed to be a covenant to operate any of the improvements which are to be constructed, or in any way affirmatively obligate Project Owner or any assignee to operate the improvements for the purposes designed or any other purpose. Project Owner shall have the sole right and discretion to establish qualification standards for prospective commercial and office occupants and the terms and conditions for the operating and leasing of the commercial and office portions of the Project.

A. Commercial Uses. The first floor of the Project consisting of approximately 24,000 gross square feet shall be devoted to the following commercial uses on the following priority bases:

FIRST PRIORITY:	food services, which services may include but shall not be limited to the following: restaurant, food market, produce market, bakery, health food store, ice cream parlor, desert parlor, etc.
SECOND PRIORITY:	art-print shops,
THIRD PRIORITY:	medical/dental services (including pharmacy and drug store),

FOURTH PRIORITY: retail stores of business; and

FIFTH PRIORITY: other commercial uses permitted within a C-3 General Commercial District.

In furtherance thereof, Property Owner shall make the existence of these priorities known in the marketing for the commercial portion of the Project; shall during the initial leasing period, set aside approximately 40% of the commercial portion of the Project for first priority uses; shall enter into leases with qualified occupants for the commercial portion of the Project in accordance with these priorities; and shall retain all leasing records pertaining to the commercial portion of the Project and shall make any such records available for inspection by the City for a period of twelve (12) months from the date of such record's preparation.

B. Office and Other Commercial Uses. The second and third floors of the Project consisting of approximately 30,000 gross square feet, other than that area dedicated to residential occupancy as hereinafter defined, shall be devoted to office uses and commercial uses permitted in a C-3 General Commercial District.

C. Residential Housing. The third floor of the west building, as designated in the Basic Concept Drawings, consisting of not less than 9,000 gross square feet, shall be used for the provision of residential occupancy as defined in paragraph 9, below.

9. **Affordable Housing.**

A. Affordability. In light of the City's current shortage of housing that is affordable to persons of low and moderate incomes, and as a means of addressing any increase in the demand for such housing associated with the development of the Project, Property Owner agrees to make the residential portion of the Project available to a mix of persons and families of very low, low, median and moderate incomes as follows:

(i) Two (2) of the units shall be affordable and rented to persons and families with annual incomes of less than 50% of median income, adjusted for family size. The rental formula for these units shall be as follows:

$$\frac{\text{Median Income as of date of initial Rental Agreement, without adjustment for family size} \times 50\% \times \text{Bedroom Adjustment} \times \text{Affordable Housing Expense}}{12}$$

(ii) Five (5) of the units shall be affordable and rented to persons and families with annual incomes of between 51% and 100% of median income, adjusted for family size. The rental formula for these units shall be as follows:

$$\frac{\text{Median Income as of date of initial Rental Agreement, without adjustment for family size} \times 100\% \times \text{Bedroom Adjustment} \times \text{Affordable Housing Expense}}{12}$$

(iii) The remainder of the units shall be affordable and rented to persons and families with annual incomes of between 100% and 120% of median income, adjusted for family size. The rental formula for these units shall be as follows:

$$\frac{\text{Median Income as of date of initial Rental Agreement, without adjustment for family size} \times 120\% \times \text{Bedroom Adjustment} \times \text{Affordable Housing Expense}}{12}$$

Median income means the median household income for the County of Los Angeles as determined from time to time by the United States Department of Housing and Urban Development ("HUD") for the Standard Metropolitan Stastical Area in which Santa Monica is located, without adjustment for family size ("Median Income"). As of the date of this Agreement, City represents to project Owner that median income is $27,400. The rental rates for existing tenants shall be adjusted annually by a percentage to reflect the percentage annual increase in median household income. Attached hereto and incorporated herein by reference as Exhibit "D" is a rental schedule for the affordable housing as of the date of this Agreement.

A housing unit provided hereunder is affordable if the annual housing cost does not exceed 25% of annual income ("Affordable Housing Expense"). There shall be a "Bedroom Adjustment" as follows: 1 bedroom: .75; 2 bedrooms: .9.

After initial occupancy, Property Owner is not in breach of this condition if the income of a person or family increases during the period of occupancy. In addition, the rent for any unit may be set at the prevailing Section 8 Existing Fair Market Rent for any tenant who is participating in said program for the duration of such participation. Residential tenants shall be responsible for payment of all utility costs.

Project Owner may establish from time to time rules and regulations for the residential portion of the Project.

B. Distribution of Units. The residential housing provided by Project Owner shall include, but not be limited to, housing for senior citizens and families with children. The housing shall consist of not less than nine (9) units, but may, at Project Owner's discretion, consist of more units. Two (2) of the nine (9) units shall be two-bedroom units; the remaining seven (7) units shall be one-bedroom units.

C. Verification of Eligibility. Property Owner shall maintain such records as are required by the City to verify eligibility for housing provided hereunder. The records shall be open for inspection and copying by City during normal business hours of Property Owner.

D. Leasing Agreement with City. Prior to or concurrent with the issuance of the Certificate of Completion in accordance with paragraph 15, below, the Project Owner may elect to enter into a master lease for the affordable housing units with the City, its housing authority or other agency acceptable to the City and Project Owner, pursuant to which the City shall lease as master lessor for a term up to Forty (40) years the affordable rental units at a rental rate established as the average of the rental rates determined in accordance with subparagraph A., above. The master lease shall provide that Project Owner shall be responsible for normally expected maintenance of the residential units. Damage caused by any negligent or intentional act or omission of a sublessee or in excess of reasonable wear and tear shall be the obligation of the master lessee or sublessee. Said master lease shall further provide that each sublessee of the City shall be bound by the rules and regulations established from time to time by mutual agreement of the City and Project Owner, and in addition shall provide for adjustment of the rental rate by a percentage to reflect the percentage increase in median household income as determined by HUD for the Standard Metropolitan Statistical Area in which Santa Monica is located, without adjustment for family size.

10. **Effect And Duration Of Covenants.** The use covenants and residential occupancy arrangements established in this Agreement shall be binding on Project Owner and any successor in interest to the Property or any part thereof for the benefit and in favor of the City and shall remain in effect until forty (40) years following the date of the issuance of the Certificate of Completion, unless otherwise herein provided.

11. **Coastal Commission Approval.** This Agreement shall be approved by the California Coastal Commission and shall not be applicable or binding on the Property or Project Owner until all approvals required pursuant to the rules and regulations of the California Coastal Commission are secured by formal commission action.

12. **City's Approval of Project.** By the adoption of the ordinance authorizing the City to enter into this Agreement, the City has approved the Basic Concept Drawings and Scope of Development and the commercial, office and residential uses for the Project as herein provided. Any provisions of the Santa Monica Municipal Code or any other rule or regulation adopted pursuant thereto, including but not limited to the City's zoning ordinances, which is inconsistent with the Project and/or its uses or is otherwise inconsistent with the provisions of this Agreement, to the extent of such inconsistencies and no further, are hereby repealed or modified to that extent necessary to permit development of the Project and to effect the provisions of this Agreement.

13. **Project Approvals.** At such time as Project Owner has obtained final approval by the California Coastal Commission of this Agreement, and following the expiration of any appeals period following such approval, Project Owner shall obtain the following City approvals only before commencement of construction of the Project:

A. City Permits. Before commencement of construction or development of any building, structures, or other work of improvement upon the Property, the Project Owner shall at its own expense, secure or cause to be secured the permits and approvals provided for in subparagraphs B and C, below. The City shall provide all proper assistance to the Project Owner in securing these permits, including the issuance or waiver of such variances or permits as may be required to effectuate the Basic Concept Drawings, the Scope of Development and Site Map and to permit the uses specified by this Agreement. No demolition permit shall be issued until a building permit has been issued in respect of the Project.

B. Architectural Review Board Approval. The Project Owner shall prepare and submit to the Architectural Review Board ("ARB") of the City of Santa Monica such drawings and specifications as are required by the rules and regulations of the ARB detailing the exterior architectural treatment of the Project. The approval of the ARB of the exterior architectural treatment of the Project shall be required as a condition of any further approvals required by the City for the construction of the Project.

C. City Approval of Plans, Drawings and Related Documents. Following architectural approval by the ARB, the Project Owner shall prepare and submit construction drawings and related documents to the building department of the City in sufficient detail to obtain a building permit. Approval of these construction drawings will be promptly granted by the building department if developed as a logical evolution of the Basic Concept Drawings and Scope of Development. Any item previously approved shall not be subject to subsequent approval.

If revisions or corrections may be required by the City or any other official, agency, department or bureau of the City having jurisdiction, the Project Owner and the City shall cooperate in efforts to obtain waiver of such requirements or to develope a mutually acceptable alternative, but no revision or correction shall be required if it would result in a material change, modification, revision or alteration of the Project. For the purposes of this Agreement a material change, modification, revision or alteration is one which does not constitute a logical evolution of the Basic Concept Drawings and Scope of Development.

14. Time For Construction And Completion of Project.

A. Beginning of Construction. Property Owner agrees to begin construction of the Project within 18 months after the final approval of this Agreement by the California Coastal Commission, and following the expiration of any appeals period following such approval; and further agrees not to demolish any existing improvements unless Project Owner is prepared to begin construction of the Project within 90 days thereafter. In the event Property Owner fails to begin construction within the period herein provided, this Agreement shall be automatically terminated and a hearing on the matter shall not be required; provided, however, that City and Project Owner may agree to extend the Agreement by mutual written consent.

B. Completion of Project. Property Owner agrees to diligently prosecute to completion the construction of the Project and to complete construction within two (2) years after the actual day construction begins. Project Owner shall use its best efforts to assure that the residential housing, commercial and office areas are available for occupancy contemporaneously.

15. **Certificate Of Completion.** Promptly after completion of the Project, the City shall provide the Property Owner with an instrument so certifying. The Project shall be deemed complete within the meaning of this Agreement at such time as the residential housing, commercial and office areas are available for occupancy. The

certification shall constitute a conclusive determination that the obligations of the Property Owner under this Agreement have been met. Certification shall be in such form as will enable it to be recorded in the Official Records of the Los Angeles County Recorder. The City further agrees that upon substantial completion of the Project, or any parcel thereof, it shall cause a Certificate of Occupancy for the Project, or any parcel thereof, to be issued upon Property Owner's request; notwithstanding that leasehold improvements are still to be done as of the time of such request.

16. **Subdivision Of Property.** The City agrees to process a parcel map or subdivision map, as may be appropriate in accordance with applicable law, for the Project to divide the Project into various parcels as determined by Project Owner. Project Owner shall prepare the necessary survey and tentative and final map through its engineer at Project Owner's expense. Such final map may not be recorded prior to completion of Project Owner's improvements on the Property.

17. **Effect Of Agreement On Land Use Regulations.** The rules, regulations and official policies governing permitted uses of the Property, the density of the Property, the design, improvement and construction standards and specifications applicable to development of the Property are and shall remain those rules, regulations and official policies in force as of September 30, 1981, except as provided in Paragraphs 7 and 8, above.

18. **Periodic Review In Compliance With Agreement.** The City shall review this Agreement at least once every 12 month period from the date this Agreement is executed. During each periodic review by the City, the Property Owner is required to demonstrate good faith compliance with the terms of the Agreement.

19. **Amendment Or Cancellation Of Agreement.** This Agreement may be amended or cancelled in whole or in part only by mutual consent of the parties and any subsequently adopted ordinance, rule or regulation or any action by the City inconsistent with the provisions of this Agreement, to the extent of such inconsistency and no further, shall not be binding and is null and void upon the Property, the Project or Property Owner.

20. **Enforcement.** Unless amended or cancelled as provided for in Paragraph 19, this Agreement is enforceable by any party to it notwithstanding a change in the applicable general or specific plan, zoning, subdivision or building regulations adopted by the City which alter or amend the rules, regulations or policies governing permitted uses of the land, density, design, improvement and construction standards and specifications. In any litigation concerning this Agreement neither party hereto shall assert as a claim or defense the invalidity of this Agreement.

21. **Subsequent Acts.** This Agreement does not prevent the City in subsequent actions applicable to the Property from applying new rules, regulations and policies which do not conflict with those rules, regulations and policies applicable to the Property as set forth in this Agreement. This Agreement does not prevent the City from denying or conditionally approving any subsequent development project application on the basis of existing or new rules, regulations and policies.

22. **Events Of Default.** Property Owner is in default under this Agreement upon the happening of one or more of the following events or conditions:

(i) If a warranty, representation or statement made or furnished by Property Owner to the City is false or proves to have been false in any material respect when it was made;

(ii) A finding and determination by the City that upon the basis of substantial evidence the Property Owner has not complied in good faith with one or more of the terms or conditions of this Agreement.

23. **Procedure Upon Default.**

(i) Upon the occurrence of an event of default, the City may declare Property Owner to be in default and may enforce or terminate this Agreement in accordance with applicable procedures. Prior to any declaration of default written notice must be given to Property Owner of the nature of such default and Property Owner shall have ninety (90) days to cure said default.

Upon the occurrence of an event of default on the part of the City, and prior to Property Owner institutiting any action to enforce the Agreement, Property Owner shall give written notice to City of the nature of such default and City shall have ninety (90) days to cure said default.

(ii) An express repudiation, refusal or renunciation of this Agreement, if the same is in writing and signed by the Property Owner, shall at the sole discretion of the City be sufficient to terminate the Agreement and a hearing on the matter shall not be required.

(iii) All other remedies at law or in equity which are not otherwise provided for in the Agreement or in the City's regulations governing development agreements are available to the parties to pursue in the event there is a breach.

24. **Damages Upon Termination.** In no event shall Property Owner be entitled to any damages against City upon the termination of this Agreement unless such termination is in breach of the Agreement. Upon any such termination of this Agreement, the parties hereto shall execute an appropriate notice of termination suitable for recording in the official records of Los Angeles County.

25. **Enforced Delay; Extension Of Times Of Performance.** In addition to specific provisions of this Agreement, performance by either party hereunder shall not be deemed to be in default where delays or defaults are due to war; insurrections; strikes; lock-outs; riots; floods; earthquakes; fires; casualties; acts of God; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; litigation; unusually severe weather; inability to secure necessary labor, materials and tools; delays of any contractor, subcontractor or supplier; acts of the other party; acts or failure to act of the City or any other public or governmental entity (other than that acts or failure to act of the City shall not excuse the City) or any other causes beyond the control or without the fault of the party claiming an extension of time to perform. An extension of time for any such cause shall be for the period of the enforced delay and shall commence to run from the time of the commencement of the cause, if notice by the party claiming such extension is sent to the other party within thirty (30) days of the commencement of

the cause. Times of performance under this Agreement may also be extended in writing by mutual agreement of City and the Project Owner.

26. **Attorneys' Fees And Costs.** If legal action by either party is brought because of breach of this Agreement or to enforce a provision of this Agreement, the prevailing party is entitled to reasonable attorneys' fees and court costs. Such fees and costs shall be payable regardless of whether said action is prosecuted to final judgment.

27. **Hold Harmless.** Property Owner agrees to and shall hold the City, its officers, its agents, employees and representatives harmless from liability for damage or claims for damage for personal injury including death and claims for property damage which may arise from the direct or indirect operation of the Property Owner or those of its contractor, subcontractor, agent, employee or other person acting on its behalf which relate to the Project. Property Owner agrees to and shall defend the City, and its officers, agents, employees and representatives from actions for damages caused or alleged to have been caused by reason of Property Owner's activities in connection with the Project.

This hold harmless agreement applies to all damages and claims for damages suffered or alleged to have been suffered by reason of the operations referred to in this paragraph, regardless of whether or not the City prepared, supplied, or approved plans or specifications or both for the Project.

The City agrees to provide a defense for Property Owner in any action challenging the legality of this development agreement. In the event any such action shall successfully challenge the legality of this Agreement, the City agrees to indemnify, hold harmless, pay all costs, including reasonable attorney's fees, of the Project Owner incurred in connection with any such action; provided, however, that City's liability hereunder shall not exceed $50,000 in the aggregate.

28. **Arts and Social Service Fee.**

A. Amount and Manner of Payment Fee. Project Owner shall pay the City an Arts and Social Service Fee in the amount of $75,000 (the

"Fee"). At the election of Project Owner, which election shall be made in writing to the City prior to the issuance of a final certificate of occupancy for the Project, Project Owner may pay said Fee either (i) in full within thirty (30) days of the issuance of the final certificate of occupancy for the Project, or (ii) in twenty (20) annual installments computed as follows: the first installment shall be in an amount equal to one-twentieth (1/20th) of the total Fee as above calculated; the first installment shall be due and payable on the first July 1 following the issuance of the final certificate of occupancy for the Project. Each subsequent annual payment shall be due and payable on the next following July 1 in an amount calculated as follows: one-twentieth (1/20th) of the total Fee, increased by a percentage equal to the percentage increase in the Consumer Price Index for All Urban Consumers for Los Angeles - Long Beach - Anaheim Metropolitan Area as issued by the United States Department of Labor from July 1 of the previous year to July 1 of the year in which the installment is due.

B. Alternatives to Fee. Project Owner shall be entitled to deduct and offset from said Fee, or any annual installment or installments thereof, an amount equal to any monies spent by Project Owner for the following purposes: (i) any works of art purchased for and displayed in the Project common areas, (ii) any art fair or other similar activity sponsored by Project Owner for the Project, or (iii) any other activity or program sponsored by Project Owner for the Project, which activity or program is approved by the City as being consistent with the purposes of the arts and social service fee. In this regard, Project Owner shall advise the City in writing of any expenditure which Project Owner deems to fall within this subparagraph B and shall set forth the amount of such expenditure and shall describe the manner in which Project Owner intends to deduct and offset said expenditures from the payment of the Fee or any installment thereof.

29. **Energy Conservation.** The Project will comply with all provisions of California Title 24 Energy Regulations, and will include as a minimum the following features:

A. Solar Heating. Solar panels, roof mounted, will provide domestic water heating.

B. Operable Windows. Operable windows will be provided in office and residential areas.

C. Other Energy Considerations. As an affirmative method of conserving energy, all energy used by each occupancy unit shall be separately metered to and paid for by the user of any such unit.

30. **Insurance.** Property Owner shall maintain public liability insurance throughout the term of this Agreement in amounts reasonably calculated by Property Owner to be sufficient for the size of the Project, however, during the course of construction such public liability insurance may be supplied by Project Owner's contractor. The insurance shall extend to the City, its elective and appointive boards, commissions, officers, agents, employees and representatives and to Property Owner and each contractor and subcontractor performing work on the Project. Property Owner shall furnish to City prior to the commencement of construction of the Project satisfactory evidence that such insurance is in force. The insurance shall provide coverage for claims and damage arising out of the operations referred to in paragraph 27 of this Agreement.

31. **Security Financing; Rights of Holders.** The City agrees that the breach of any of the covenants or restrictions contained in this Agreement shall not defeat nor render invalid the lien of any mortgage or deed of trust which is a lien upon the Property, or any portion thereof. In addition, the City agrees that it shall execute, acknowledge and deliver, if requested so to do by a responsible financial or lending institution, confirmations and instruments of further assurance should such responsible financial or lending institution request the City to do so as a condition to the granting of any mortgage or deed of trust financing of the Property for construction of the Project improvements or permanent financing of the Project.

32. **Notices.** All written notices and demands of any kind which either party may be required or may desire to serve on the other in connection with the Agreement may be served as an alternative to personal service by registered or certified mail.

Any such notices or demands so served by registered or certified mail shall be deposited in the United States Mail, with postage thereon fully prepaid, addressed to the party so to be served and delivered to the party so to be served and delivered to the party if not by personal service, as follows:

To Project Owner: H. J. Kendell Associates
Suite 716
606 Wilshire Boulevard
Santa Monica, California 90401

With a copy to: Stern & Miller,
A Professional Corporation
Suite 706
606 Wilshire Boulevard
Santa Monica, California 90401

Attention: Michael D. Miller, Esq.

To City: City Manager
City of Santa Monica
1685 Main Street
Santa Monica, California 90401

With a Copy to: City Attorney
City of Santa Monica
1685 Main Street
Santa Monica, California 90401

Service of any such notice or demand so made by mail shall be deemed complete on the date of actual delivery as shown by the addressees registery or certification receipt or at the expiration of the second day after the date of mailing, whichever is earlier in time. Any party hereto may, from time to time by notice in writing served upon the other parties as aforesaid, designate a different mailing address or a different person to whom all such notices or demands are thereafter to be addressed.

33. **Headings.** The titles and headings of the various paragraphs hereof are intended solely for convenience of reference and are not intended for any purpose whatsoever to explain, modify or place any construction upon any of the provisions of this Agreement.

34. **Assignment.** This Agreement shall not be severable from Property Owner's interest in the Project. Any transfer of the Project shall automatically operate to transfer the benefits and burdens of this Agreement. Property Owner may freely sell,

transfer, exchange or otherwise dispose of its interest in the Project without the consent of the City.

35. **Agreement.** This Agreement constitutes the entire Agreement between the parties hereto with respect to the subject matter hereof and may not be modified, amended or otherwise changed in any manner except by mutual consent of the parties in accordance with the procedures for adoption of a development agreement. If a part of this Agreement is held to be invalid, the remainder of the Agreement is not affected.

36. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

37. **Duration of Agreement.** This Agreement shall expire on October 1, 2031. After expiration or full satisfaction the parties shall execute an appropriate certificate of termination which shall be recorded in the official records of Los Angeles County.

38. **Recording of Agreement.** The parties hereto shall cause this Agreement to be recorded in the official records of the County of Los Angeles.

IN WITNESS WHEREOF, this Ageement has been executed by the parties as of the day and year first above written.

CITY OF SANTA MONICA

Approved as to form:

By: ______________________

CITY ATTORNEY FOR THE CITY
OF SANTA MONICA

By: ______________________

Attest: ______________________

H. J. KENDALL ASSOCIATES

By: ______________________

ATTORNEY FOR PROJECT OWNER

By: ______________________

HERBERT J. KENDALL, President

EXHIBIT "A"

Lots "M", "N", "O", and "P", all in block 198 of Santa Monica, in the City of Santa Monica, in the County of Los Angeles, State of California, as per map recorded in Book 39 Page 45 et seq., of Miscellaneous Records, and in Book 3 pages 80 and 81 of Miscellaneous Records, in the Office of the County Recorder of said County.

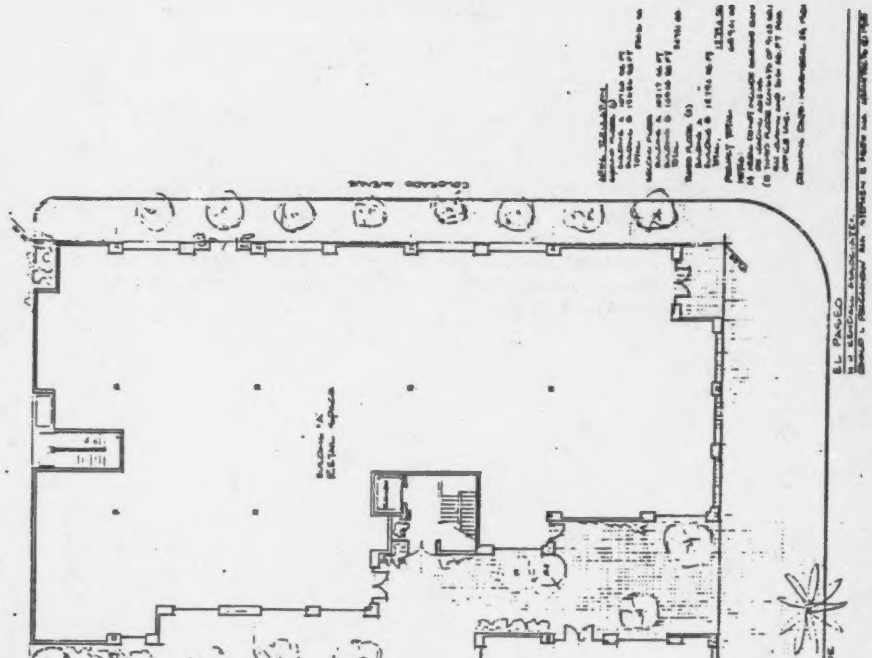
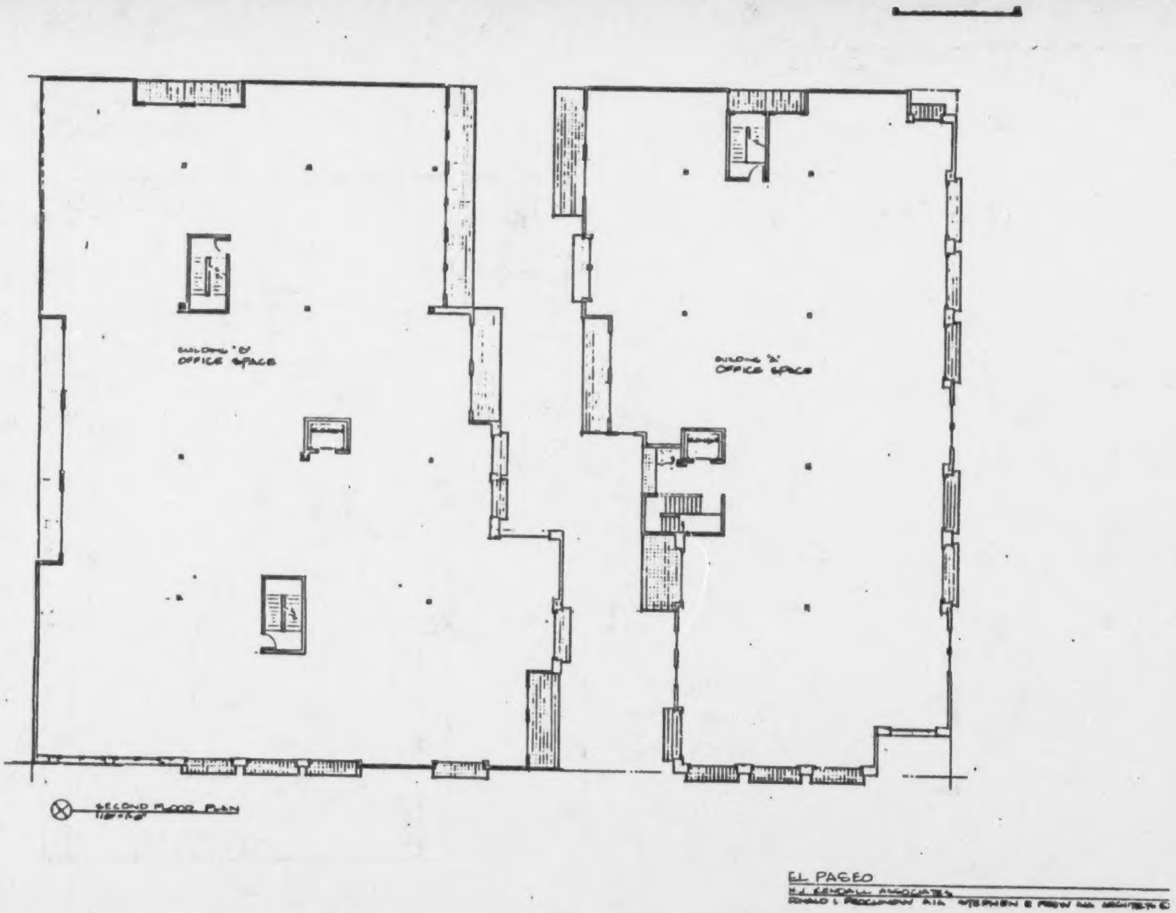
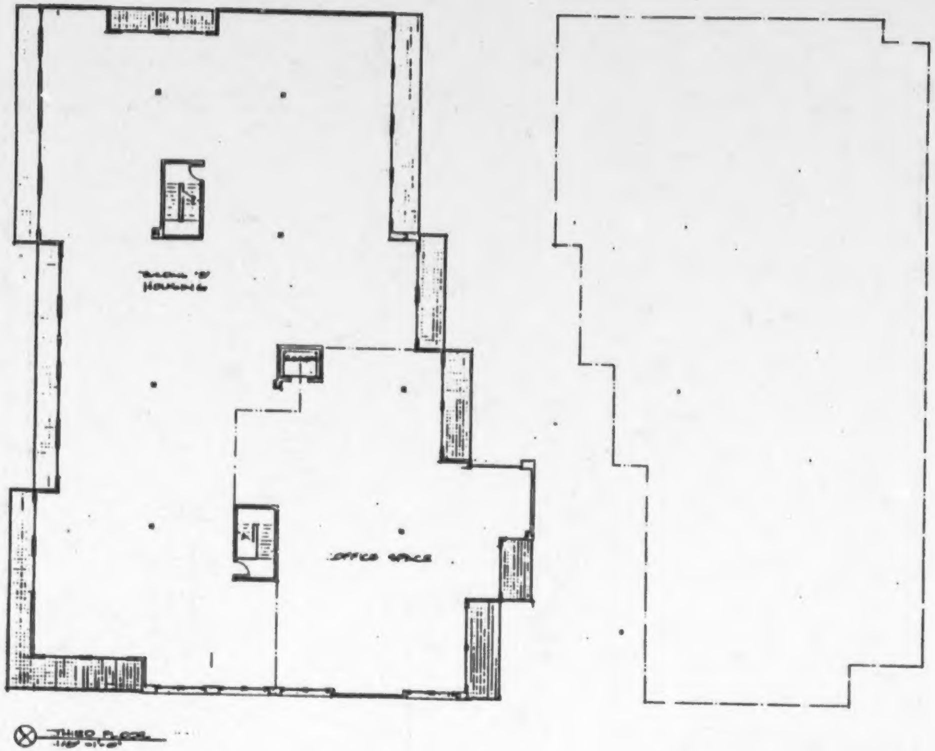
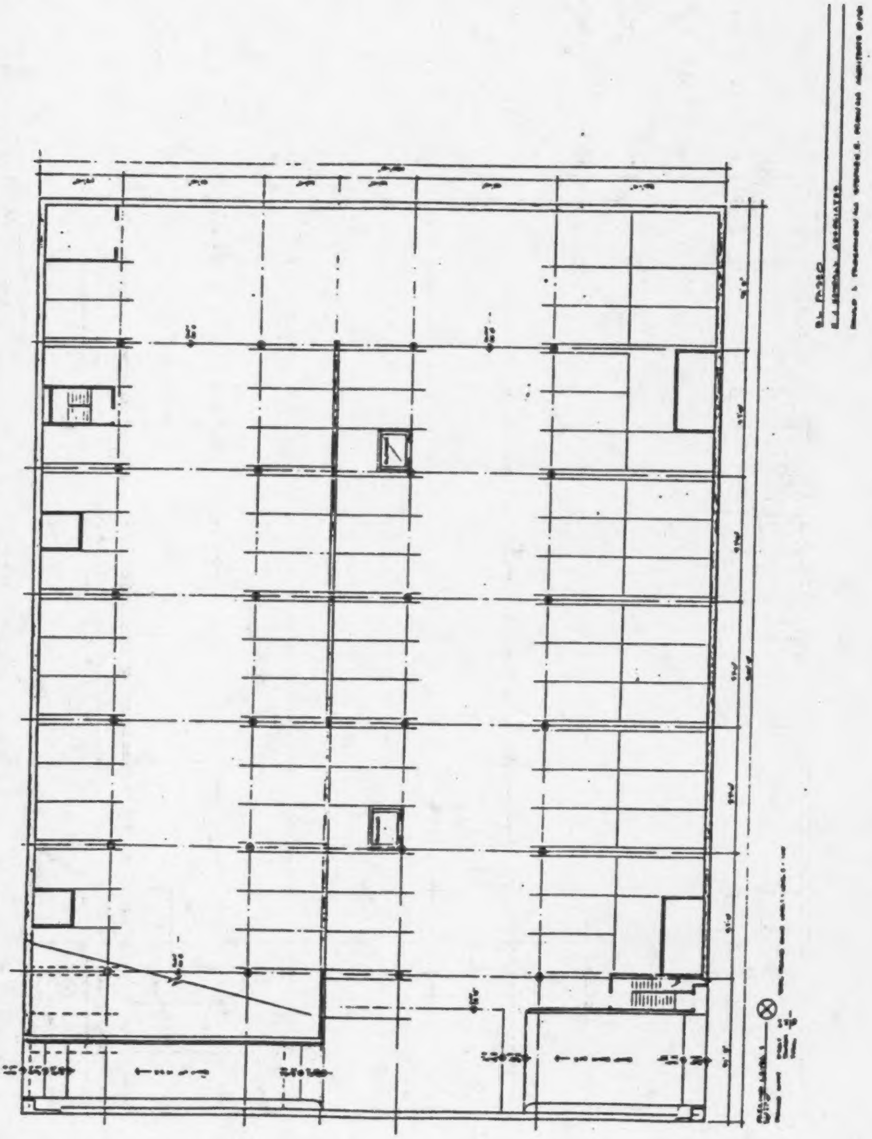
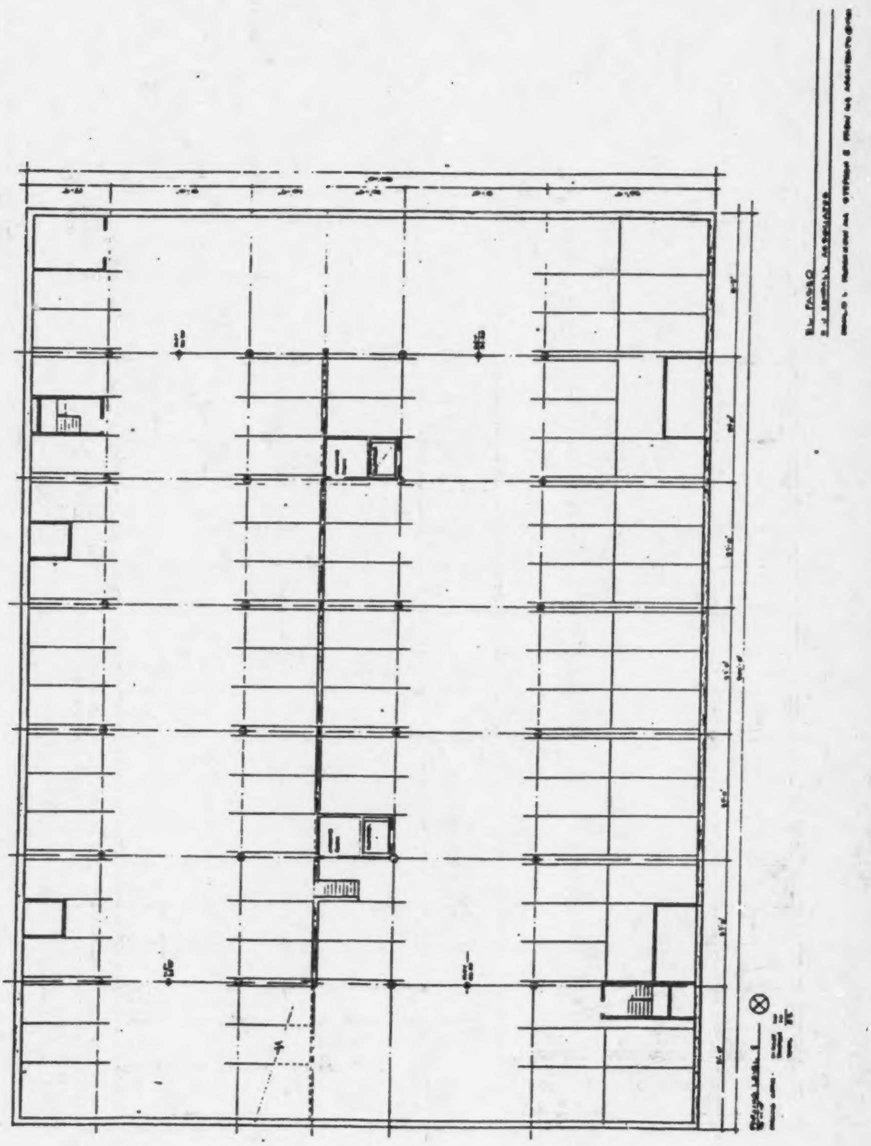

COLORADO AVENUE
BUILDING 'A' RETAIL SPACE
BUILDING 'B' RETAIL SPACE
OCEAN AVENUE
EL PASEO

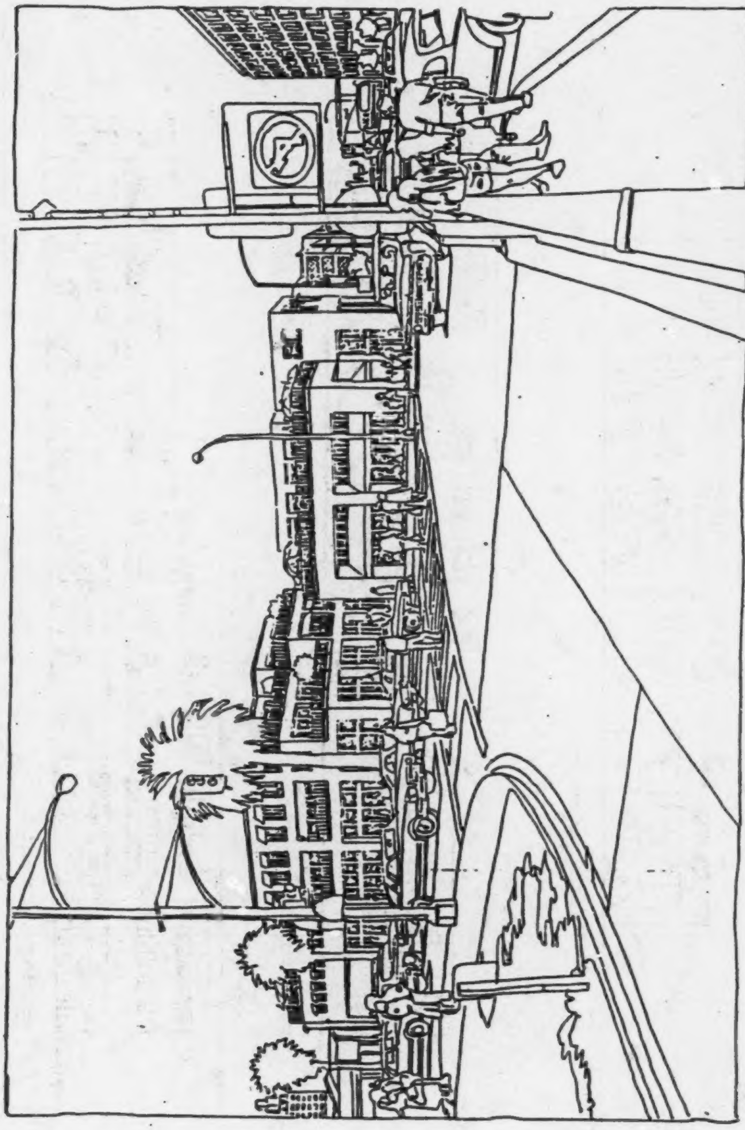
EXHIBIT B


BUILDING 'C'
OFFICE SPACE
BUILDING 'A'
OFFICE SPACE
SECOND FLOOR PLAN
1/8"=1'-0"
EL PASEO
H.J. KENDALL ASSOCIATES
RONALD L. FRECKMAN AIA STEPHEN E PROW AIA ARCHITECTS


BUILDING 'B' HOUSING
OFFICE SPACE
THIRD FLOOR
[illegible]
EL PASEO
J.J. KENDALL ASSOCIATES
[illegible] AIA [illegible] AIA ARCHITECTS

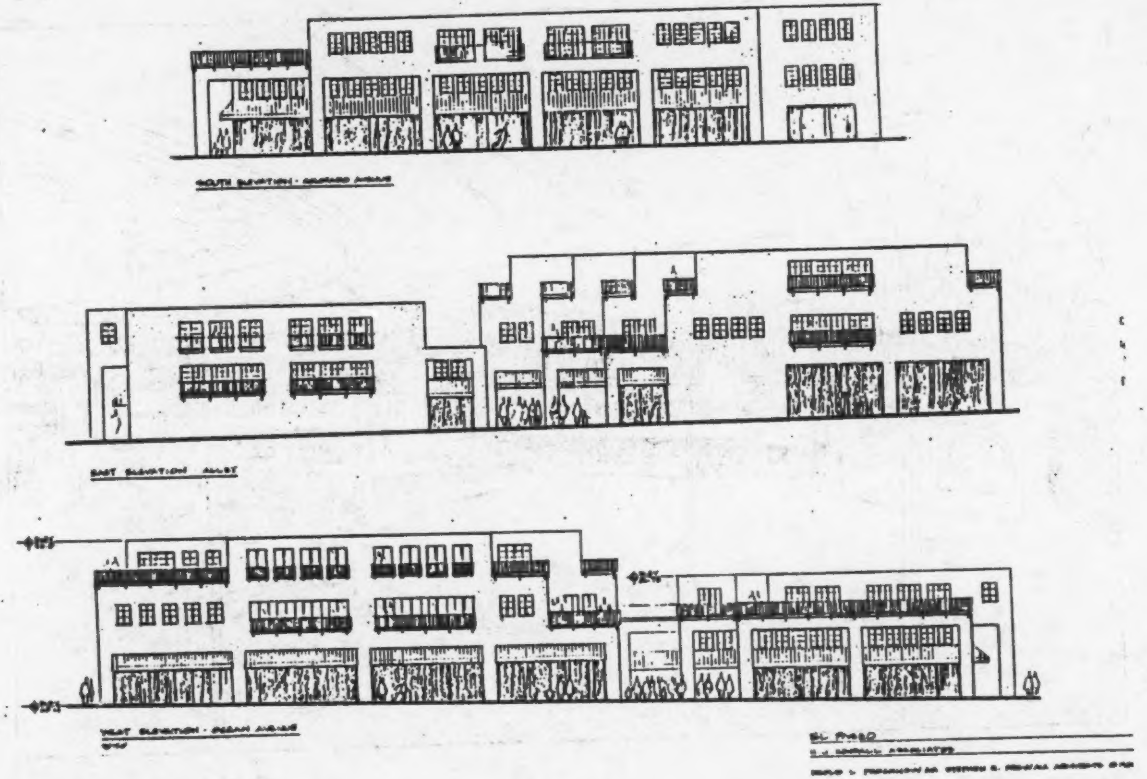






(*THIRD FLOOR DELETED FROM BUILDING A)

(*THIRD FLOOR DELETED FROM BUILDING A)


SOUTH ELEVATION
EAST ELEVATION ALLEY
A
A
WEST ELEVATION · OCEAN AVENUE
EL PASEO

(*THIRD FLOOR DELETED FROM BUILDING A)

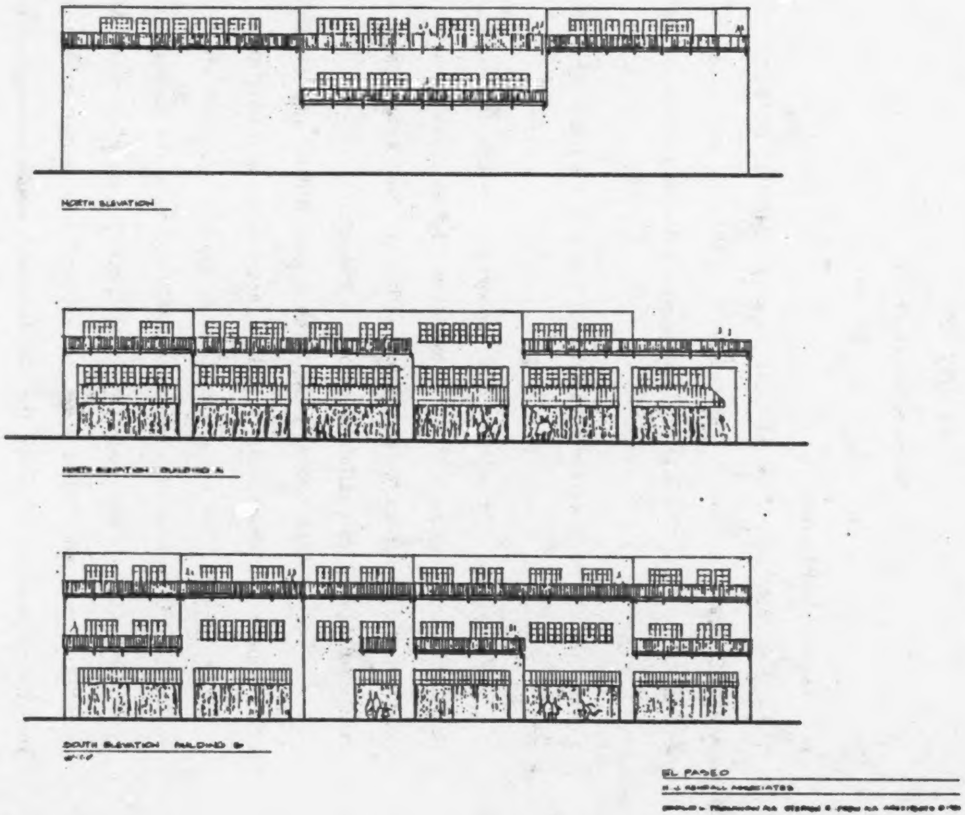

NORTH ELEVATION
NORTH ELEVATION BUILDING A
SOUTH ELEVATION BUILDING B
EL PASEO

EXHIBIT "C"

Scope of Development

I. General Description.

The site is comprised of certain real property located at the corner of Ocean Avenue and Colorado Avenue in Santa Monica, California and which is legally described in Exhibit "A". The site contains approximately 30,000 square feet and is zoned C-3.

The site shall be designed and developed according to the following development standards:

A. Height. The Project will be developed within two separate structures. One building will be approximately 28 feet above grade while the other will be approximately 36 feet in height. Such height shall not include solar panel installation, elevator or access stair.

B. Gross Area. Total gross building area will be approximately 63,000 square feet, which shall not include garage ramps or loading areas.

C. Design. The architectural design approach would be what one would expect in an area of temperate climate and along the coastal area. The Project will take advantage of the view, with the use of balconies and operable windows and french doors. A contemporary spanish colonial or the type of development along the Mediterranean would best suggest the design approach. Appropriate landscaping will be integrated in the design.

D. Energy. Effort will be made to design and construct the buildings for energy efficiency. Hot water will be primarily from solar panels. Electricity will be sub-metered to promote self-discipline to conserve energy. Air conditioning will be optional, at the discretion of the individual tenant and at his expense. The use of operable windows and doors to terraces should preclude any major use of mechanical air conditioning.

E. Parcel Coverage. Not more than eighty percent (80%) of the site shall be covered by buildings and structures, excluding, however, from this calculation garage ramps and loading areas.

F. Building Setbacks. Minimum building setbacks shall be in conformance with the City's Municipal Code and any variance as may be granted by the City.

G. Building Construction. Building shall be constructed in conformance with the City's Municipal Code; Type 5 construction standards will prevail.

H. Signs. A sign program in keeping with the architectural style of the Project shall be developed in accordance with Architectural Review Board guidelines.

I. Landscaping. Landscaping and an irrigation system shall be provided within the site subject to Architectural Review Board approvals.

J. Vehicular Access. Vehicular driveways shall be coordinated with the Traffic Department and shall be located in a manner consistent with the Basic Concept Drawings.

K. Loading and Unloading. Loading area shall be provided as required by the City in a manner consistent with the Basic Concept Drawings.

L. Parking. On site parking for the Project shall include not less than 150 cars on two subterranean levels and shall include tandem as well as single spaces.

M. Access for Disabled Persons. Each area of the Project shall be accessible to disabled persons in accordance with the City's Municipal Code.

EXHIBIT "D"

RENTAL SCHEDULE
AS OF OCTOBER, 1981

A. Two very low units:

1 Bedroom	$ 214.06 [1]
1 Bedroom	214.06

B. Five median units:

1 Bedroom	$ 428.13
1 Bedroom	428.13
1 Bedroom	428.13
1 Bedroom	428.13
2 Bedroom	513.75

C. Moderate units[2]

1 Bedroom	$ 513.75
1 Bedroom	513.75
2 Bedroom	616.50

D. Security Deposits: Project Owner shall be entitled to require each tenant to deposit with Project Owner a security deposit not in excess of one month's rent. Said security deposits shall be placed in an interest bearing account at an institution whose accounts are insured by the Federal Savings and Loan Insurance Corporation until such time as the security deposit and any interest thereon is returned to the tenant or entitled to be used by Project Owner in accordance with Civil Code §1950.5.

---

[1] All residential tenants shall be directly responsible for the payment of utility costs. The rent shown is "net" to Project Owner.

[2] Project Owner is obligated to make available not less than 2 moderate units.

8-B: AGREEMENT WITH COLORADO PLACE ASSOCIATES (GREENWOOD DEVELOPMENT CO.) PERMITTING DEVELOPMENT AT 2600 COLORADO AVENUE: Presented was a staff report transmitting an ordinance for introduction approving a development agreement with Colorado Place Associates (Greenwood Development Co.) for property located at 2600 Colorado Avenue, as requested by the Council at their meeting of August 11, 1981. The staff report was presented. Discussion was held. The public hearing was declared open at 8:52 P.M. by Mayor Yannatta Goldway. John Blumthal, project manager representing Greenwood Development, spoke in support of the proposed ordinance but requested flexibility in regard to parking spaces to be provided in improving Colorado Avenue. Discussion was held. During discussion in regard to the intent of Council to indicate that the developer work with the Santa Monica Bus Line and its designees to implement public transit incentives, the City Attorney requested the record to indicate that this provision would not preclude working with any other municipal transit company. There being no one else wishing to speak to the matter, Councilmember Zane moved to close the public hearing at 9:20 P.M. Second by Mayor Yannatta Goldway. The motion was approved by unanimous vote. Councilmember Zane moved to introduce an ordinance entitled: "AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA APPROVING A DEVELOPMENT AGREEMENT BETWEEN COLORADO PLACE ASSOCIATES AND THE CITY OF SANTA MONICA", for property at 2600 Colorado Avenue, reading by title only and waiving further reading thereof, including an amended Exhibit C to provide for improvement of Colorado Avenue with landscaping, turn lanes and an appropriate number of parking spaces (not less than ten), amendments to Section 6 relating to Child Care Center to provide inclusion of cooking gas outlets and to Section 10 to read instead "Use of public transit facilities, including actively working with Santa Monica Municipal Bus Lines and its designee to improve service to and from...". Second by Mayor Yannatta Goldway. The motion was approved by the following vote:

Council Vote: Unanimously approved 6-0

Absent: Councilmember Jennings

CA:RMM:r
City Council Meeting 10-13-81 Santa Monica, California

STAFF REPORT

TO: Mayor and City Council

FROM: Robert M. Myers, City Attorney

SUBJECT: Development Agreement Between Colorado Place Associates (Greenwood Development Company) and City of Santa Monica

INTRODUCTION

At its meeting on August 11, 1981, the City Council directed the City Attorney to negotiate a development agreement with Colorado Place Associates (hereinafter "property owner") for the site located at Colorado Avenue between 26th Street and Stewart Street in the City of Santa Monica. Property owner is a California general partnership of which Greenwood Development Company is the general partner.

ANALYSIS

In directing the City Attorney to negotiate the development agreement, certain guidelines were established by the City Council. The following discussion analyzes the points requested to be included in the development agreement by the City Council. (The underlined heading is the City Council's general direction on a particular point and is followed by a discussion of the manner in which the development agreement addresses that point.)

1. The Development Will be a Maximum of 312,000 Square Feet of Office Space Not More Than Five Stories in Height.

The development agreement provides that the site will be developed with a building for office and related commercial uses of no more than 312,000 gross square feet in total and with a height of no more than five stories above ground. (See ¶ 1(a).) Provision is made for the approval of a tentative and final subdivision map for office condominiums upon approval of the City's housing element. (See ¶ 3.) Parking will be provided in accordance with current requirements of the Municipal Code. (See ¶ 1(f).)

2. The Eastern One Acre of the Site Will be Devoted for a Minimum of 30 Units of Affordable Housing.

The development agreement requires the property owner to provide a total of 30 units of low and moderate income rental housing. (See ¶ 1(b), ¶ 5.) The housing will be provided on a site of less than one acre and will be integrated with the day care center, community space, and park.

The housing must be ready for occupancy within 18 months of the certificate of occupancy for the office building. The property owner may extend the performance date an additional 6 months by posting appropriate security in the amount of $ 1,750,000.00 adjusted by the Consumer Price Index. (See ¶ 24.) Failure to perform according to the schedule results in additional units being required at the rate of 10% plus 2% per month of the units not provided.

(See ¶ 5(i).) For example, if developer was one year late in providing the 30 units, the developer would have to provide an additional 10 units. (The additional units can be provided off-site.)

The rental housing provided must be affordable to very low, low, median, and moderate income persons as follows:

At least 25% for very low income.

At least 50% for low and median income.

The remainder for moderate income.

A housing unit is affordable if the annual housing cost does not exceed 25% of annual income. (See ¶ 5(a)(iv).)

The housing provided must include housing for handicapped persons, senior citizens, and families with children. The housing shall consist of a mix of bedroom sizes: no more than 15 one bedroom units; at least 8 two bedroom units; and at least 4 three or more bedroom units. (See ¶ 1(b).)

The housing must be provided for 40 years or the life of the project, whichever is greater. (See ¶ 5(g).) The provision of the housing is not tied to the availability of any city, state or federal subsidy.

Employees of the office building and lessees, operators or employees of the day care center and community space will have priority for the housing to the extent they meet income requirements. (See ¶ 5(b).)

3. Space and Facilities for a Day Care Center to be Leased to the City at an Agreed-Upon Favorable Rate.

The development agreement provides for a day care center of not less than 800 square feet with access to outdoor open space. (See ¶ 1(c).) The day care center will be located with the affordable housing. (See ¶ 1(c) and Exhibit B.)

In addition to providing the space with certain specified tenant improvements (see ¶ 6(a)), the property owner will provide outdoor play equipment or shall provide a sum of money up to $ 3,000 to purchase outdoor play equipment. (See ¶ 6(a).) In addition, a tenant allowance will be provided of not more than $ 2,000 for necessary furnishings and equipment for the indoor area. (See ¶ 6(b).)

The day care center shall be leased to the City according to a triple-net lease at the rental rate of $ 1.00 per year. The City may sublet the space, but is required to split any sublease rentals on a 50-50 basis with the property owner.

4. 1,500 Square Feet for Community Needs.

The development agreement provides for 1,500 square feet for community space. (See ¶ 1(d).) The City is required to survey the surrounding area and determine which of three uses would be most beneficial to those surveyed. (See ¶ 7(a).) The property owner is then required to select one of the three uses. (See ¶ 7(a).) If the community space is to be rented to a commercial business, the developer is free to negotiate the terms of the lease. (See ¶ 7(a).) If the community space is to be leased to the City, the property owner shall lease the space to the City on a triple-net lease at the rental rate of $ 1.00 per year and shall provide certain specified improvements. (See ¶ 7(a), ¶ 7(b).)

5. A Fee of 1.5% of the Cost of Land and Improvements to be Paid to the City for Arts and Social Services.

An Arts and Social Service Fee of 1.5% is provided for in the development agreement. (See ¶ 9.) The fee as calculated will be $ 471,121 adjusted by the Consumer Price Index between the date of the Agreement and the commencement of construction. (See Exhibit D.) The property owner has the option of paying the fee within 30 days of the issuance of the certificate of occupancy for the housing or of paying the fee over 20 years, annually adjusted for increases in the Consumer Price Index, with a deduction for providing artwork on or around the exterior of the building, for providing the community space, daycare center, and park, and for maintaining and upkeeping the public park.

6. Affirmative Action and Training Programs.

The property owner has agreed to certain non-discriminatory policies. (See ¶ 12.)

7. Traffic Abatement and Emission Plan.

Prior to completion of office building, the property owner is required to submit to the City for approval a traffic and emission abatement program. (See ¶ 10.) The program will be designed to actively encourage and promote among the owners, tenants, and employees of the office building the following traffic and emission abatement measures:

a. Staggered hours or "flex-time" amongst different condominium owners, tenants, and their employees.

b. Compilation and distribution of ride-share lists and scheduling of car-pools and van-pools for all persons in the office building.

c. Reduced parking rates for car-pools and van-pools.

d. Use of public transit facilities, including actively working with local transit companies to improve service to and from the project and public transit incentives such as bus passes for tenants and employees.

e. Readily available bicycle parking areas.

This program must remain in effect for the project's life.

In addition, the property owner will provide a bus shelter should the City establish a bus line along either Colorado Boulevard or 26th Street. (See ¶ 10(b).)

8. Energy Conservation Measures.

The development agreement contains a very detailed list of the energy conservation measures to be included in the project. (See ¶ 11.)

As the foregoing discussion indicates, the proposed development agreement addresses all of the issues in the City Council's direction to the City Attorney. In addition, the following additional points have been addressed in the development agreement:

1. Accessibility. The project, including the park, shall be accessible to handicapped persons. (See ¶ 1(h).)

2. Park. A small park open to the public shall be provided by the property owner. (See ¶ 1(e) and Exhibit B.)

3. Hold Harmless and Insurance. The property owner agrees to hold the City harmless for all of its activities, including maintenance and operation of the office building, park, and housing. (See ¶ 13.) Appropriate insurance will be maintained by the developer naming the City as co-insured. (See ¶ 14.)

4. General Service Requirements. The property owner has agreed to provide a number of improvements requested by the Director of General Services. (See Exhibit C.) The

estimated cost of the improvements is $ 341,500.

RECOMMENDATION

As discussed above, the proposed development agreement addresses all of the points in the City Council's direction to the City Attorney. Therefore, it is respectfully recommended that the City Council introduce for first reading the accompanying ordinance approving the development agreement.

PREPARED BY: Robert M. Myers, City Attorney

CA:RMM:r
City Council Meeting 10-13-81 Santa Monica, California

ORDINANCE NUMBER ______

(City Council Series)

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA APPROVING DEVELOPMENT AGREEMENT BETWEEN COLORADO PLACE ASSOCIATES AND THE CITY OF SANTA MONICA

THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES ORDAIN AS FOLLOWS:

SECTION 1. The development agreement attached hereto and incorporated by reference between Colorado Place Associates, a California general partnership, and the City of Santa Monica, a municipal corporation, is hereby approved.

SECTION 2. Each and every term and condition of the development agreement approved in Section 1 of this ordinance shall be and is made a part of the Santa Monica Municipal Code and any appendices thereto. The City Council of the City of Santa Monica finds that the public necessity, public convenience, and general welfare require that any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this development agreement, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to make

fully effective the provisions of this development agreement.

SECTION 3. Any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to affect the provisions of this ordinance.

SECTION 4. If any section, subsection, sentence, clause, or phrase of this ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the ordinance. The City Council hereby declares that it would have passed this ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

SECTION 5. The Mayor shall sign and the City Clerk shall attest to the passage of this ordinance. The City Clerk shall cause the same to be published once in the official newspaper within 15 days after its adoption. The ordinance shall become effective 30 days from its adoption.

APPROVED AS TO FORM:

Robert M. Myers
ROBERT M. MYERS
City Attorney

EXHIBIT C
Requirements of General Services Department

WORK TO BE DONE:	ESTIMATED COST ONLY
1. Colorado Avenue Street Improvements:	
a. Work with City Staff to develop plan which will include ~~15-parking-spaces~~ to be available between 6:00 P.M. and 8:00 A.M. for residents of buildings on the north side of Colorado Avenue and provide landscaped median islands, left turn islands and north parkway landscaping, all at a cost not to exceed	an appropriate number of parking spaces (cost less [illegible]) $ 61,360.00
b. Resurface street to centerline:	17,230.00
2. 26th Street resurfaced to ceterline:	2,420.00
3. Stewart Street resurfaced to centerline if determined to be necessary:	2,250.00
4. Traffic signal at Colorado and Stewart with interconnect to Colorado and 26th:	75,000.00
5. Street lights (sodium vapor at 180' O.C.):	35,100.00
6. Sidewalks, 6' width at all frontages:	24,180.00
7. Street trees at 40' O.C.:	8,970.00
8. Water system improvements:	
a. Street main:	73,130.00
b. Building service:	41,860.00
Total	$341,500.00

DEVELOPMENT AGREEMENT

between

Colorado Place Associates,
a California general partnership

and

The City of Santa Monica, California

TABLE OF CONTENTS

PAGE

1. Physical Plan of Development 4
2. Expeditious Processing of Permits 6
3. Tract Map Approval 7
4. Time for Construction and Completion of Building 8
5. Housing 8
6. Center 14
7. Community Space 16
8. Park 18
9. Arts and Social Services Fee 18
10. Traffic and Emission Abatement 20
11. Energy Conservation 22
12. Non-Discriminatory Policies 24
13. Hold Harmless 25
14. Insurance 26
15. Periodic Review of Compliance with Agreement 26
16. Effect of Agreement on Land Use Regulations 27
17. Amendment or Cancellation of Agreement . . . 28
18. Enforcement 28
19. Interest of Owner 29
20. Successors and Assigns 29
21. Events of Default 29
22. Procedure Upon Default 30

23. Damages Upon Termination 32

24. Extension of Time for Completion 32

25. Notices 33

26. Duration of Agreement 34

27. Recording of Agreement 34

28. Headings 34

29. Severability 34

30. Attorneys' Fees 34

31. Relationship of Parties 35

32. Signs 35

33. California Law 36

DEVELOPMENT AGREEMENT

This Development Agreement (the "Agreement") is made and entered into as of this ______ day of ______________, 1981, by and between Colorado Place Associates, a California general partnership ("Owner"), and the City of Santa Monica, a charter city organized and existing under the laws of the State of California, and its various agencies (collectively referred to as the "City"), with reference to the following facts:

A. Owner is the owner of certain unimproved real property located in the City of Santa Monica, California, as more particularly described in Exhibit "A" attached hereto (the "Property");

B. Owner's intent in acquiring the Property was to develop it into a three hundred and twelve thousand (312,000) square foot office building, which would either be subdivided into condominium units, or leased out; to that end, Owner had architectural plans drawn and engineering studies prepared;

C. On December 3, 1980, City's Architectural Review Board approved the design of the building and Owner shortly thereafter completed purchase of the Property by exercising an option it held on the remaining portion of the Property it did not already own;

D. On April 14, 1981, Owner submitted its application for a tentative tract map for the office building, Tentative Tract Map No. 42283 ("Map No. 42283"), and Map No. 42283 was set for hearing before the Planning Commission for May 4, 1981;

E. On April 22, 1981, City's City Council (the "Council") adopted a Moratorium Ordinance, Ordinance No. 1205 (the "Ordinance") directing that a moratorium be placed on the "erection, construction, enlargement, demolition, moving, or conversion of, and excavation and grading for, any building or structure in the City of Santa Monica," with certain exceptions; the Ordinance also placed a moratorium on the "acceptance for processing of any applications for approval of a Tentative Tract or Parcel Map sought to be filed after the effective date of this ordinance," and directed the Planning Commission to "disapprove all Tentative Tract and Parcel Maps for which applications have been made;"

F. On May 4, 1981, City's Planning Commission (the "Commission") held a hearing on Map No. 42283, and, instead of denying or approving Map No. 42283, the Commission took no action;

G. On June 23, 1981, the Council directed the Citizens Task Force on Development in Commercial and Industrial Zones, which it had established pursuant to the Ordinance, to establish a subcommittee to address development of the Property (the "Subcommittee"), and to begin to work immediately with Owner to establish parameters for development of the Property; the Subcommittee was to make its recommendation regarding development of the Property by August 1, 1981;

H. Owner and its representatives met with the Subcommittee three times, July 15, 1981, July 20, 1981, and July 30, 1981, to discuss the Subcommittee's ideas for development of the Property;

I. On August 11, 1981, the Council adopted the Subcommittee's recommendation with amendments, and directed the Owner and City's City Attorney to prepare a Development Agreement for approval by the Council, pursuant to applicable laws;

J. The Council finds that the within Development Agreement is consistent with City's general plan and that Owner's plan of development described herein complies with all applicable rules, regulations and official policies governing permitted uses of the Property, density, conceptual design and improvement, and where it does not, it has been specially approved by the Council.

NOW, THEREFORE, in consideration for the covenants and conditions hereinafter set forth, the parties hereto do hereby agree as follows:

1. Physical Plan of Development. Owner has presented to the Council, and the Council has approved, a development plan (referred to herein in total as the "Project") for the Property which is the subject of this Agreement as described in Exhibit B. The plan includes the following elements:

(a) Building. A building for office and related commercial uses (the "Building") of no more than 312,000 gross square feet in total, with a height of no more than five stories above ground, complying with the requirements of City's Building and Safety Code;

(b) Housing. Thirty units of residential housing (the "Housing") built in compliance with existing requirements of City's Building and Safety Code at the east end of the Property; the Housing shall be no more than three (3) stories in height and shall include units which are usable by handicapped persons, senior citizens and families with children; the Housing shall consist of no more than fifteen (15) one bedroom units, at least eight (8) two bedroom units, and at least four (4) three bedroom units;

(c) Daycare Center. Space for a daycare center (the "Center") of not less than eight hundred (800) square feet, with access to outdoor open space as required; the Center shall be located in or near the Housing;

(d) Community Space. Fifteen hundred (1500) square feet of bare shell space to be used for a community need ("Community Space");

(e) Park. Open space between the Building and the Housing to be used as a public park ("Park"); and

(f) Parking. Subterranean parking for the Building and subterranean or ground-level parking for the Housing, with capacity for a minimum of one space per 300 square feet of adjusted gross office space, plus one and one-half (1.5) spaces per housing unit, thirty percent (30%) of which total parking may be designed to accommodate subcompact and compact cars; nothing herein shall be construed to prohibit Owner in the future, if parking requirements are ever revised downward by City, to convert excess parking area to storage area upon conformance to and compliance with any then existing permit requirements.

(g) General Services Requirements. Compliance with requirements of City's Department of General Services, which requirements are enumerated in Exhibit "C" attached hereto and made a part hereof. Owner shall not be subject to any further requirements of the General Services Department in addition to those contained in Exhibit "C" and any others agreed to prior to the effective date of this Agreement in connection with construction of the Project.

(h) Accessibility. Accessibility of the Project, including the Park, to handicapped persons.

(i) Review of Changes. No material change, modification, revision or alteration may be made in those portions of the development plan which are incorporated into this Agreement without review and approval by those agencies of City approving the plan in the first instance. A material change, modification, revision or alteration in those portions of the development plan which are incorporated into this Agreement will not be effective until the parties amend this Agreement to incorporate it.

2. Expeditious Processing of Permits, Etc. Pursuant to the Council's approval of the physical plan of

4. Time for Construction and Completion of Building.

(a) Beginning Construction. Owner agrees to begin construction of the Building within two (2) years after the execution of this Agreement provided that all necessary permits, approvals and financing are obtained. In no event shall construction commence later than five (5) years after execution of this Agreement.

(b) Completion of Building. Owner agrees to diligently prosecute to completion the construction of the Building and to complete construction within four (4) years after the actual construction begins subject to delays reasonably beyond Owner's control and the contingencies recited in paragraph 22 hereof.

5. Housing. In light of City's current shortgage of housing that is affordable to persons of low and moderate incomes, and as a means of addressing any increase in the demand for such housing associated with the development, Owner agrees to provide on the Property thirty (30) rental units subject to the terms and conditions of this paragraph and paragraph 1(b).

(a) Affordability. The housing units provided for hereunder shall be made available to a mix of persons and families of very low, low and median, and moderate incomes as follows:

(i) At least seven (7) units will be affordable and rented to persons and families with an annual income of less than fifty percent (50%) of median income;

(ii) At least sixteen (16) units will be affordable and rented to persons and families with an annual income of from fifty percent (50%) to ninety-nine percent (99%) of median income; and

(iii) The remainder of the units shall be affordable and rented to persons and families with an annual income of less than one hundred twenty percent (120%) of median income;

(iv) The annual rental rate for each unit shall be no greater than twenty-five percent (25%) of the income levels established in subparagraphs (i), (ii) and (iii) above for the family size occupying the unit.

(v) Median income as used herein refers to the median incomes by household size, for the County of

Los Angeles as determined by the United States Department of Housing and Urban Develpment.

(b) Priority of Tenants. To the extent allowed by any subsidy program used by Owner, Owner may offer the units to those persons meeting the qualifications of (a) above based on the following order of priority:

(i) Employees of the owners of condominium units in the Building ("Condominium Owners") or of tenants in the Building who are residents of Santa Monica;

(ii) Employees of the Condominium Owners or of tenants in the Building who are not residents of Santa Monica;

(iii) Lessees, operators or employees of the Center or Community Space who are residents of Santa Monica;

(iv) Lessees, operators or employees of the Center or Community Space who are not residents of Santa Monica;

(v) Those persons who are residents of Santa Monica but do not work in the Building, Center or Community Space;

(vi) Those who neither work in the Building, Center or Community Space, nor are residents of Santa Monica; and

(vii) No tenant(s) of a unit shall be required to vacate that unit solely for the reason that the income of such tenant(s) increases after initial qualification.

(d) Certification by Employees. To assure that no Condominium Owner reduces an employee's pay simply because of that employee's qualification for the Housing, or in order to enable that employee to qualify for the Housing, Owner shall obtain a signed statement from all employees who are tenants certifying that no such pay reduction has occurred for either of said purposes.

(e) Responsibility for Processing. Unless otherwise mandated by any subsidy program used by Owner, Owner shall process applications from applicants for the priorities set out in subsection (b) above, and shall provide certification to City of evidence of the qualifications of selected applicants. After all the Units have been initially rented, Owner shall process and monitor rerentals according to the priorities described in subparagraph (b) above; Owner shall maintain such records as are required by City to verify eligibility for the Housing provided hereunder. The records shall be open for inspection and copying by City during normal business hours of Owner.

(f) Schedule for Housing. The Housing shall be provided and ready for occupancy within eighteen (18) months after a Certificate of Occupancy is issued for the Building.

(g) Duration of Housing Requirement. The Housing shall be provided for 40 years or for the life of the Building, whichever period is greater.

(h) City Cooperation. City shall cooperate with Owner in expediting the issuance of permits necessary in connection with the Housing required hereunder. City shall provide such cooperation as it deems appropriate to assist Owner in securing favorable financing for the Housing required hereunder.

(i) Failure to Provide Housing. In the event Owner fails to provide the units specified under this paragraph, City, at its election, upon a final judgment in its favor, shall be entitled to one of the following remedies:

(i) In an action for specific performance, the number of units that Owner shall be required to provide hereunder may be increased by the sum of the following: (A) ten percent (10%) of the number of units which Owner is found to have failed to provide, rounded up to the next highest whole unit and (B) two percent (2%) of the number of units which Owner is found to have failed to provide, multiplied by the number of calendar months for which Owner is found to have failed to provide said units based on the time for performance in subparagraph (f) above, rounded up or down to the nearest whole unit. The additional units provided for herein may be in new or existing buildings in City, and there shall be no requirement that the additional units be located on the Property. The term "existing buildings" shall not include any building that contains any controlled rental unit as defined in Section 1803(c) of the Santa Monica City Charter, but the term shall include a building for which a removal permit has been granted pursuant to Section 1803(t) of said Charter.

(ii) In an action for damages, the amount of recoverable damages may be calculated by determining the costs that City would be required to incur if it were to provide the same number of units that Owner is found to have failed to provide.

6. Center.

(a) Preparation of Center Space. In connection with the space to be used as the Center, Owner agrees to provide the following: finished perimeter walls including windows and doors; finished interior partition walls adequate to enclose the spaces required by State standards for day care centers (toilet rooms, office, and staff rest area); toilet room fixtures and plumbing; vinyl floor tile and wall base; acoustic tile ceiling; heating and ventilating system; electrical system including fluorescent lighting; and fire sprinklers meeting fire department regulations if required. For purposes of this section finished walls shall mean gypsum board, taped, spackled and painted. Owner shall also provide outdoor play equipment or shall provide a sum of money, up to three thousand dollars ($3,000.00), sufficient to purchase such outdoor play equipment. The Center shall be provided and ready for occupancy within eighteen (18) months after a Certificate of Occupancy is issued for the Building. The space for the Center shall be provided for the life of the Building, except as provided under subparagraph (c) below.

(b) Lease to City. Owner shall lease the Center on a long-term triple net lease (i.e., lessee to pay costs of maintenance, insurance and taxes) to City at the rate of $1.00 per year. Owner shall provide a tenant allowance of not more than two thousand dollars ($2,000.00) to the first tenant or subtenant for necessary furnishings and equipment for the indoor area. City shall assure that operation of the Center complies in all respects with the licensing provisions of the California Health and Safety Code, Sections 1527 *et seq*. If City does not operate the Center itself, it may sublease the Center for a term of not less than five years; the term may exceed five years if approved by Owner. City shall split the sublease rental with Owner, with City taking no more than fifty percent (50%) of said rental, with the remainder being paid to Owner. In any case, Owner retains the right to approve the operator of the Center, which approval shall not be unreasonably withheld.

(c) Use of Center. City agrees that so long as the space dedicated to the Center remains in operation as a Center, first priority in admission to the Center shall be given to the children of Condominium Owners who work in the Building, tenants or employees of Condominium Owners who work in the Building, or tenants in the Building and Housing. Owner shall be released from any further responsibility except as set out in the lease with City with regard to the Center after providing the Center, except that if City is unable to operate the Center, directly or by sublease, within one (1) year of the delivery of the Center space to City, or for a continous period of six (6) months any time thereafter, the Center space shall be released from all conditions hereunder, and shall be returned to Owner for Owner to employ it in a use compatible with the Housing and Building. Unless and until released to Owner for other uses as herein provided, City shall take all reasonable steps necessary to keep the Center space in good condition whether or not it is operated as a day care center.

7. Community Space.

(a) Use of Community Space. City shall survey the surrounding business and residential communities within one-half (1/2) mile of the Building, to determine what three uses of the Community Space would most benefit those surveyed. Owner shall have the right to approve and select the use from such three uses based on compatability with the Building use and its character. If the Community Space shall be used for a commercial purpose, Owner may, at its election, locate and negotiate with potential owners and operators of such commercial operation and Owner shall not be restricted in any way in the sale price or rental charge that it seeks and obtains for the Community Space; otherwise, Owner shall lease the Community Space to City on a long-term triple net lease at the rate of $1.00 per year. City may sublease the Community Space to the person or entity operating the selected use. City shall split the sublease rental with Owner, with City taking no more than fifty percent (50%) of said rental with the remainder being paid to Owner. In any case, Owner retains the right to approve the sublessee of the Community Space, which approval shall not be unreasonably withheld.

(b) Preparation of Community Space. The Community Space shall be provided and ready for leasing within eighteen (18) months after a Certificate of Occupancy is issued for the Building, and shall be provided for the life of the Building except as provided under subparagraph (c) below. If the space is leased to the City, the Owner will provide the following: finished perimeter walls including doors and windows, vinyl floor tile and wall base, acoustic tile ceiling, fluorescent light fixtures, roughed-in plumbing for toilet rooms, primary electrical service to the space, an allowance of up to $4,000 for the heating and ventilating system, and fire sprinklers if required to meet fire department regulations.

(c) Release of Community Space. In the event that neither City nor Owner is able to locate a lessee for the Community Space within one (1) year of the completion of the Community Space, or for a continuous period of six (6) months any time thereafter, the Community Space shall be released from all conditions hereunder, and shall be returned to Owner for Owner to employ it in a use compatible with the Housing and Building.

8. Park. The open space area on the Property to be developed by Owner as the Park shall be open to the public during reasonable hours of use. During such open hours, no person may be excluded from the Park except to the extent that City would be permitted by law to exclude a person from a City-owned park, provided that a portion of the Park space, not to exceed fifteen hundred (1,500) square feet, may be made available to an adjacent condominium owner or tenant for an outdoor public access use, such as cafe seating. Nothing herein shall be construed as granting a public easement to the Park area of the Property, and Owner may take any steps necessary to protect its ownership of the Park area from the assertion of any such easements. The Park shall be provided for the life of the Building.

9. Arts and Social Services Fee. Owner agrees to pay an Arts and Social Services Fee, as calculated in Exhibit "D" attached hereto, of one and one-half percent (1.5%) of (i) the total cost to Owner of the Property,

reduced proportionately by the percentage of land used for the Housing and the open space between the Building and the Housing, and (ii) the cost of construction of the Building together with subterranean parking used for the Building, as disclosed in Exhibit "D". The fee shall be paid by Owner to City at Owner's election either within thirty (30) days after the certificate of occupancy for the Housing is issued, or in twenty (20) annual installments commencing one year after issuance of the certificate of occupancy for the Housing. The annual payments shall be calculated by taking one-twentieth of the Arts and Social Services Fee, increased by a percentage equal to the percentage increase in the Consumer Price Index for All Urban Consumers for the Los Angeles-Long Beach-Anaheim Metropolitan Area as issued by the United States Department of Labor for the immediately preceding full year. Owner shall be entitled to deduct from the Arts and Social Services Fee the following costs:

(a) Costs. The architectural, engineering, and construction costs connected with the design, construction and furnishing of the Center, the Community Space and the Park; however, if Owner sells the Community Space or receives rental income from its direct leasing of the Community Space, Owner may not deduct any architecture, engineering and construction costs associated with the Community Space.

(b) Artwork. Artwork on or around the exterior of the Building and/or the Housing, purchased and installed by Owner, exclusive of any financing fees, up to an amount equal to seventy percent (70%) of the Arts and Social Services Fee; "artwork" as used herein shall refer to decorative elements added to the Property, including but not limited to fountains and sculptures.

(c) Maintenance of Park. Maintenance and upkeep of the Park and its furnishings, and any public programs in the Park.

10. Traffic and Emission Abatement.

(a) Traffic Program. Property Owner will designate a representative whose responsibility it will be to prepare and submit to the City for approval prior to issuance of a certificate of occupancy for the Building, a program designed to actively encourage and promote among the Condominium Owners, employees and tenants of the Building the following traffic and emission abatement measures:

(i) Staggered hours or "flex-time" among different Condominium Owners, tenants and their employees;

(ii) Compilation and distribution of ride-share lists and scheduling of car-pools and van-pools for all persons in the Building;

(iii) Reduced parking rates for car-pools and van-pools;

(iv) Use of public transit facilities, including actively working with local transit companies to improve service to and from the Project and implementing public transit incentives such as bus passes for tenants and employees of Condominium Owners;

(v) Readily available bicycle parking areas;

(vi) Such other measures that Owner determines will reduce the traffic and emission impact of the Building.

Such traffic and emission abatement measures will be initiated no later than upon occupancy of fifty percent (50%) of the Building.

(b) Bus Shelter. Further, Owner shall design and provide a bus shelter area on the Property or adjacent thereto, if City decides to add a bus line along Colorado Boulevard or 26th Street, and implements that plan prior to issuance by City of the Certificate of Occupancy for the Building. City agrees that no advertising shall be placed on the shelter area.

11. Energy Conservation. The Building systems and envelope will comply with all provisions of Title 24 of the California Administrative Code, regarding energy regulations. The design will include the following components:

(a) Heating, Cooling and Ventilation. The heating, cooling and ventilation of the Building will be provided by one of two systems being evaluated for use in the building. System one utilizes a system of operable windows, heat pumps serving small zones, individual zone controls and independent suite utility metering. The heat pump system will transfer heat from warm zones to cool zones, minimizing the need for supplemental heat in the system in cool weather. Conservation efforts by the Condominium Owners will translate into direct savings on their separate utility bills. System two utilizes centralized air distribution with variable volume controls. The variable volume control system allows air flow quantity to be matched to demand for cooling and therefore minimizes unnecessary energy consumption for cooling and fans. The system would also have the capability of distributing 100% outside air in an economizer cycle when the outdoor air temperature is appropriate. The Building would have operable windows with this system also. Both systems will provide incentive for conservation by allowing the users to open windows.

(b) Utility Metering. With system one described above, energy for heating, cooling, lighting and equipment will be metered individually for each suite so that all energy conserving practices by the occupants will be reflected directly on independent utility bills. With system two, individual suite metering of energy consumption for heating and cooling will be provided if the necessary technology is available and has been proven. The individual metering of electricity use for lighting and equipment will be provided with system two as well as with system one.

(c) Lighting. Lighting will be provided by high efficiency fluorescent lamp/ballast systems to minimize electricity consumption. Local light switching will be provided to allow energy conservation when natural daylight is adequate and when spaces are unoccupied. Lighting in public areas, the garage, and at the Building exterior will be controlled to minimize energy use during off-hours.

(d) Garage Exhaust System. The fans which exhaust the parking garage will be controlled by carbon monoxide sensors to minimize energy consumption during periods of low garage usage.

(e) Water Heating. Solar panels will be used to provide heat for the Building's domestic water system. The system will provide tempered water, minimizing energy use and optimizing solar panel efficiency.

(f) Building Envelope. The heat transfer coefficients of the Building's walls, floors and roof will comply with the performance standards established by Title 24 for commercial buildings.

12. Non-Discriminatory Policies. Owner shall actively encourage the general contractor selected to construct the Building and Housing through the unions representing construction workers in the construction of the Building and Housing or otherwise to operate job training programs and affirmative action programs during construction. Owner shall make a good faith attempt to publicize the availability of space in the Building in ways that will be likely to reach businesses owned by racial minorities and women, and Owner shall actively encourage affirmative action and job training programs among purchasers of the Condominium units and their

tenants. Owner affirms its own commitment to equal opportunity in any actions taken by it in connection with the construction and eventual sale or lease of space in the Building or Housing regardless of sex, race, color, religion, ancestry or national origin.

13. Hold Harmless. Owner shall hold City, its officers, agents, employees and other representatives harmless from liability for claims of personal injury including death and claims for property damage which may arise from the direct or indirect operations of Owner or those of its contractor, subcontractor, agents, employees or other persons acting on its behalf in connection with construction and operation of the Building, Housing and Park. Owner shall defend City and its officers, agents, employees and representatives from actions for damages as described above which are caused or are alleged to have been caused by reason of Owner's activities in connection with the Property. This hold harmless agreement applies to all damages and claims for damages suffered or alleged to have been suffered by reason of the operations referred to in this paragraph, regardless of whether or not City prepared, supplied, or approved plans or specifications or both for the Project. However, nothing herein shall be construed to mean that Owner shall hold City harmless and defend it from any claims of property damage or personal injury arising from or alleged

to arise from City's, its officers', agents', employees' and other representatives', negligent act or negligent failure to act, willful or gross negligence, or any deliberately harmful act or failure to act.

14. Insurance. Owner shall maintain public liability insurance throughout the term of this Agreement in amounts reasonably calculated by Owner to be sufficient for the size of the Project. The insurance shall extend to City, its elective and appointive boards, commissions, officers, agents, employees and representatives and to Owner and each contractor and subcontractor performing work on the Project. Property Owner shall furnish to City prior to the commencement of construction of the Project satisfactory evidence that such insurance is in force. The insurance shall provide coverage for claims and damage arising out of the operations referred to in paragraph 13 of this Agreement. Nothing herein shall be construed to exempt City from its responsibility under paragraph 6(b) above to pay the insurance costs for operation of the Center.

15. Periodic Review of Compliance With Agreement. City shall review this Agreement at lease once every twelve months from the date of execution hereof. During each periodic review by City, Owner shall be required to demonstrate good faith compliance with the terms of this Agreement, by

means of a written report provided within sixty days of notice from City. Said report shall include a status report on the construction of the Building and Housing, and any program designed by Owner, and thereafter operated by Owner, with regard to the Units, the Center and/or the Community Space.

16. Effect of Agreement on Land Use Reglations.

(a) Rules in Force. The rules, regulations and official policies governing permitted uses of the Property, the density of the Property, the design, improvement and construction standards and specifications applicable to development of Property, are and shall remain those rules, regulations and official policies in force at the time of the execution of this Agreement, except as modified by this Agreement, or subsequent agreement of the parties hereto pursuant to paragraph 17 below.

(b) New Rules. This Agreement shall not prevent City in subsequent actions applicable to the Property from applying new rules, regulations and policies which do not conflict with the terms, conditions, purpose or spirit of this Agreement, or with those rules, regulations and policies applicable to the Property as set forth in this Agreement. This Agreement does not prevent City from denying or conditionally approving any subsequent development for the Property on the basis of existing or new rules, regulations and policies.

(c) Inconsistencies. Any provisions of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this Agreement, to the extent of such inconsistencies and no further, are hereby repealed or modified to that extent necessary to effect the provisions of this Agreement.

17. Amendment or Cancellation of Agreement. This Agreement may be amended or cancelled in whole or in part only by mutual consent in writing of City and Owner, and in the manner provided for by law.

18. Enforcement. Unless amended or cancelled as provided in paragraph 17 above, this Agreement is enforceable by any party to it notwithstanding a change in the applicable general or specific plans, zoning, subdivision or building regulations adopted by City which alter or amend the rules, regulations or policies governing permitted uses of the land, density, design, improvements and construction standards and specifications. In any litigation concerning this Agreement neither party shall assert as a claim or defense the invalidity of this Agreement.

19. Interest of Owner. Owner represents that it has legal and equitable interests in the Property and that all other persons holding legal or equitable interest in the Property are to be bound by this Agreement.

20. Successors and Assigns. The burdens of this Agreement shall bind and the benefits of this Agreement shall inure to the successors and assigns of the parties hereto and any transfer of the Property shall automatically operate to transfer the benefits and burdens of this Agreement. After Owner has completed the development of the Property as described in paragraph 1 above, Owner may assign any obligations of Owner hereunder to the Building's Office Condominium Owners' Association.

21. Events of Default. Owner shall be deemed to be in default under this Agreement upon the happening of one or both of the following events or conditions.

(a) A warranty, representation or statement made or furnished by Owner to City is false or proves to have been false in any material respect when it was made;

(b) Owner has not complied with one or more of the terms or conditions of this Agreement.

22. Procedure Upon Default.

(a) Notice of Default. Upon the occurrence of an event of default, written notice must be given to Owner of the nature of such default and Owner shall have ninety (90) days to cure said default. If Owner fails to cure, City may declare Owner to be in default and may enforce, terminate or modify this Agreement in accordance with applicable procedures. However, if the default is due to Owner's failure to provide the Housing, City shall have available to it those remedies described in paragraph 5. Upon the occurrence of an event of default on the part of City, and prior to Owner instituting any action to enforce the Agreement, Owner shall give written notice to City of the nature of such default and City shall have ninety (90) days to cure said default.

(b) Termination. An express repudiation, refusal or renunciation of this Agreement, if the same is in writing and signed by the Owner, shall, at the sole election of City, be sufficient to terminate this Agreement and a hearing on the matter shall not be required.

(c) Non-Performance. Non-performance shall be excused when it is prevented or delayed by reason of any of the following forces reasonably beyond the control of Owner:

(i) War, insurrection, riot, flood, severe weather, earthquake, fire, casualty, acts of a public enemy, governmental restriction, litigation, acts or failures to act of any governmental agency or entity;

(ii) Inability to secure necessary labor, materials or tools, strikes, lockouts, delays of any contractor, subcontractor or supplier, but non-performance shall be excused for a total cumulative period of not more than six (6) months under any or all of the forces enumerated in this subparagraph;

(iii) Any judicial act, including but not limited to an injunction, preventing or otherwise interfering with Owner's compliance with its obligations or responsibilities hereunder, resulting from judicial action brought by any persons or entities outside this Agreement and unrelated to Owner to invalidate all or any part of this Agreement or otherwise prevent Owner's compliance with all or any part of this Agreement.

(d) Non-Exclusiveness of Remedies. All remedies at law or in equity, including specific performance, which are not otherwise provided for in this Agreement or in City's regulations governing development agreements are available to the parties to pursue in the event there is a breach.

23. Damages Upon Termination. In no event shall Owner be entitled to any damages against City upon termination of this Agreement unless such termination is in breach of the Agreement. Upon any such termination of this Agreement, the parties hereto shall execute an appropriate notice of termination suitable for recording in the official records of Los Angeles County.

24. Extension of Time for Completion. Owner may extend the eighteen-month period referred to in paragraphs 5(f), 6(a) and 7(b) to twenty-four (24) months upon the posting of a bond, delivery of a letter of credit, a certificate of deposit, or other financial guarantee satisfactory to the City, in the amount of One Million Seven Hundred and Fifty Thousand Dollars ($1,750,000.00) (the "Extension Payment"), to secure its performance hereunder. Said bond, letter of credit, certificate of deposit or alternate financial guarantee shall be provided to City prior to issuance of the certificate of occupancy for the Building. The Extension Payment shall be adjusted by the percentage change in the Consumer Price Index for All Urban Consumers for the Los Angeles-Long

Beach-Anaheim Metropolitan Area for the period of time following execution of this Agreement and immediately preceding issuance of the certificate of occupancy for the Building.

25. Notices. All notices required or provided for under this Agreement shall be in writing and shall be deemed to have been delivered when delivered in person or four (4) days after being sent by certified mail, postage prepaid. Notice required to be given to City shall be addressed as follows:

City Attorney
City of Santa Monica
1685 Main Street
Santa Monica, California 90401

Notices as required to be given to Owner shall be addressed as follows:

Colorado Place Associates
c/o Greenwood Development Company
1888 Century Park East, 8th Floor
Los Angeles, California 90067

with a copy to:

Frederica Rudulph Obrzut
Manatt, Phelps, Rothenberg & Tunney
1888 Century Park East, 21st Floor
Los Angeles, California 90067

A party may change the address by giving notice in writing to the other party and thereafter notices shall be addressed and transmitted to the new address.

26. Duration of Agreement. This Agreement shall expire fifty-five (55) years from execution hereof, or such earlier date as Owner ceases to have any further obligations under this Agreement. After expiration or full satisfaction the parties shall execute an appropriate certificate of termination which shall be recorded in the official records of Los Angeles County.

27. Recording of Agreement. The parties hereto shall cause this Agreement to be recorded in the official records of the County of Los Angeles.

28. Headings. The paragraph headings in this Agreement are for reference only and shall not be used in construing or interpreting any of its provisions.

29. Severability. If any provisions of this Agreement are determined to be invalid, the remainder of this Agreement shall survive.

30. Attorneys' Fees. Should either party hereto institute any action or proceeding to enforce any provision of this Agreement, or for damages by reason of a breach of this Agreement, or for a declaration of the parties' rights or obligations or duties under this Agreement, or for any other judicial remedies under this Agreement, the party in

whose favor final judgment is entered shall be entitled to recover from the other party reasonable attorneys' fees to be fixed by the Court where such judgment is entered.

31. Relationship of Parties. It is understood that the contractual relationship between City and Owner is such that the Owner is an independent contractor and not the agent of City.

32. Signs. Owner shall have the right to establish reasonable rules regarding signs which are placed anywhere in the Park, or on the Housing, the Center or Community Space.

33. California Law. In the case of any dispute between the parties, California law shall apply.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the day and year first above written.

"City" City of Santa Monica	"Owner" Colorado Place Associates, a California general partnership
By______________________	General Partner Campeau Corporation California, a California corporation
	By__________________________
	General Partner Greenwood Properties, Inc., a California corporation
	By__________________________

EXHIBIT A

PARCEL 1:

Those portions of Lots 1, 2 and 3 in Block 200 of Santa Monica, in the City of Santa Monica, as per map recorded in Book 39 Page 45 et seq., of Miscellaneous Records, in the office of the County Recorder of said County, described as follows:

Beginning at the most Northerly corner of the land described in Deed to John Byers recorded in Book 1630 Page 83, Official Records, in the office of the County Recorder of said County, said most Northerly corner being in the Southeasterly line of Colorado Avenue, distant thereon North 45° 37' East 280 feet from the most Westerly corner of Parcel 16 as shown on map designated Exhibit "C" filed in connection with Case No. B-25296 Superior Court of said County; thence along said Colorado Avenue, North 45° 37' East 809.20 feet, more or less to the most Westerly corner of the Northeasterly 30 feet of said Lot 3; thence Southeasterly parallel with the Northeasterly line of said Lot 3, 150 feet; thence Southwesterly parallel with the Northwesterly line of said Block to the most Easterly corner of said land of Byers; thence along the Northeasterly line of said land of Byers North 44° 23' West 150 feet to the point of beginning.

EXCEPT therefrom that portion of said land lying within Stewart Street as provided for in a Final Order of Condemnation in favor of the City of Santa Monica, a municipal corporation, said order being filed October 3, 1975 and recorded October 7, 1975 as Instrument No. 3451.

ALSO EXCEPTING FROM all mineral, oil, petroleum and other hydrocarbon substances in, on, within and under that portion of said lands lying more than 500 feet below the surface of said lands and every part thereof, but without right of entry, as reserved by Irving Bernstein and Mildred Bernstein, husband and wife, in deed recorded March 29, 1963 as Instrument No. 1547.

PARCEL 2:

The land referred to in this policy is situated in the State of California, County of Los Angeles, and is described as follows:

Lot 1 of Tract 25003, in the city of Santa Monica, as per map recorded in Book 816 Pages 79 and 80 of Maps, in the office of the county recorder of said county.

EXHIBIT C
Requirements of General Services Department

WORK TO BE DONE:	ESTIMATED COST ONLY
1. Colorado Avenue Street improvements:	
a. Widen street by 7' to accommodate 2-way left-turn lane; new curb, gutter and paving:	$ 61,360.00
b. Resurface street to centerline:	17,230.00
2. 26th Street resurfaced to ceterline:	2,420.00
3. Stewart Street resurfaced to centerline if determined to be necessary:	2,250.00
4. Traffic signal at Colorado and Stewart with interconnect to Colorado and 26th:	75,000.00
5. Street lights (sodium vapor at 180' O.C.):	35,100.00
6. Sidewalks, 6' width at all frontages:	24,180.00
7. Street trees at 40' O.C.:	8,970.00
8. Water system improvements:	
a. Street main:	73,130.00
b. Building service:	41,860.00
Total	$341,500.00

Revised

EXHIBIT D

1. Land Cost

Total cost of property: $6,551,100
Land used for housing and open space: 39,940 square feet
Total land area: 139,919 square feet
Percentage of land used for housing and
open space: 39,940 ÷ 139,919 = 28.5%
Total cost less 28.5%: $4,684,037

2. Construction Cost

Shell & core cost x gross area $45/s.f. x 312,000 s.f. =	$14,040,000
Tenant improvement cost x net area $16/s.f. x 274,000 s.f. =	4,384,000
Garage cost x garage area $25/s.f. x 332,000 s.f. =	8,300,000
Total construction cost:	$26,724,000
Total land and construction cost:	$31,408,037
1.5% Arts and Social Services fee:	$ 471,121*

*This amount shall be adjusted as follows: The total construction cost shall be adjusted by the change in the Consumer Price Index for All Urban Consumers for the Los Angeles-Long Beach-Anaheim Metropolitan Area as issued by the United States Department of Labor for the period from the date of this Development Agreement to the date when construction of the Building actually commences.

DEVELOPMENT AGREEMENT WITH COLORADO PLACE, LTD.

(Welton Becket Associates)

CONTRACT NO. 3719(CCS)

City Council Meeting

October 27, 1981

1. Staff Report.

2. Ordinance Approving Development Agreement and Development Agreement.

3. Negative Declaration and Initial Study.

CA:RMM:r
City Council Meeting 10-27-81 Santa Monica, California

STAFF REPORT

TO: Mayor and City Council

FROM: City Attorney

SUBJECT: Ordinance Approving Development Agreement Colorado Place, Ltd. (Welton Becket Associates) and City of Santa Monica and Approval of Negative Declaration

At its meeting on September 15, 1981, the City Council introduced for first reading an ordinance approving a development agreement between the City of Santa Monica and Colorado Place, Ltd. (Welton Becket Associates). The ordinance was reintroduced for first reading on October 13, 1981, in order to incorporate an amendment to the development agreement made in response to concerns of the property owner's construction lender. The ordinance is now presented to the City Council for adoption.

In connection with this ordinance, an initial study and negative declaration was prepared pursuant to the provisions of the California Environmental Quality Act. (A copy of the initial study and negative declaration are attached.) The initial study and negative declaration were distributed to the Office of Planning and Research for statewide review. In addition, notice of the preparation of the initial study and negative declaration was published in the manner required by law indicating that the public had until October 18, 1981, to comment on the initial study.

Two written comments were received on the initial study. (Both are attached to the initial study.)

The Southern California Association of Governments commented favorably on the project. SCAG stated:

> Both the traffic emission abatement program and the provision of low and moderate income housing through the proposed development agreement represents a unique approach to mitigating the adverse impacts associated with this project. The traffic emission abatement program includes all applicable measures in the 1979 ACMP and is therefore consistent with SCAG policies. The agreement, which calls for the provision of 100 units of low moderate income housing is consistent with SCAG policies.

The Office of Planning and Research responded with one comment from the statewide review process. The comment is from the Los Angeles Regional Water Quality Control Board. The LARWQCB does not foresee any significant water quality impacts resulting from the project assuming planned upgrading of the sewer system and proper removal of e excavated materials. Both concerns are being fully addressed by the City and by the property owner.

The Planning Commission reviewed the initial study and negative declaration at its meeting on October 19, 1981. (A transcript of the Commission's comments is in the process of being prepared and will be attached to the initial study prior to City Council consideration.) The major concern of the Planning Commission was the traffic impacts from the project. However, the City's Traffic Engineer is satisfied that the traffic and emission abatement program, the requirements imposed by the General Services Department, and other traffic improvement programs of the City planned for the area will mitigate any potentially significant traffic impacts caused by the project.

In the present case, a negative declaration is well-supported by the initial study. Any potentially significant effects on the environment have been mitigated by the various mandatory requirements of the development agreement. As SCAG recognized, the City has utilized a "unique approach" to mitigating any significant effects of the project. Thus, because of the provisions of the development agreement, approval of the negative declaration is appropriate under the California Environmental Quality Act.

RECOMMENDATION

It is respectfully recommended that the City Council approve the negative declaration and that the ordinance approving the development agreement be adopted.

PREPARED BY: Robert M. Myers, City Attorney

CA:RMM:r
City Council Meeting 10-27-81 Santa Monica, California

ORDINANCE NUMBER 1231

(City Council Series)

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA APPROVING DEVELOPMENT AGREEMENT BETWEEN COLORADO PLACE, LTD., AND THE CITY OF SANTA MONICA

THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES ORDAIN AS FOLLOWS:

SECTION 1. The development agreement attached hereto and incorporated by reference between Colorado Place, Ltd., a California limited partnership, and the City of Santa Monica, a municipal corporation, is hereby approved.

SECTION 2. Each and every term and condition of the development agreement approved in Section 1 of this ordinance shall be and is made a part of the Santa Monica Municipal Code and any appendices thereto. The City Council of the City of Santa Monica finds that the public necessity, public convenience, and general welfare require that any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this development agreement, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to make

fully effective the provisions of this development agreement.

SECTION 3. Any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to affect the provisions of this ordinance.

SECTION 4. If any section, subsection, sentence, clause, or phrase of this ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the ordinance. The City Council hereby declares that it would have passed this ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

SECTION 5. The Mayor shall sign and the City Clerk shall attest to the passage of this ordinance. The City Clerk shall cause the same to be published once in the official newspaper within 15 days after its adoption. The ordinance shall become effective 30 days from its adoption.

APPROVED AS TO FORM:

Robert M. Myers

ROBERT M. MYERS
City Attorney

DEVELOPMENT AGREEMENT

between

COLORADO PLACE, LTD.

A California Limited Partnership

and

THE CITY OF SANTA MONICA, CALIFORNIA

TABLE OF CONTENTS

Page

1. Definitions.. 2
2. Exhibits... 3
3. Description of Real Property....................... 3
4. Interest of Property Owner......................... 3
5. Assignment... 4
6. Binding Effect of Agreement........................ 4
7. Relationship of Parties............................ 4
8. City's Approval of Project......................... 4
9. Changes in Project................................. 5
10. Time for Construction and Completion of Project... 5
    (a) Beginning Construction........................ 5
    (b) Completion of Project......................... 5
    (c) Certificates of Occupancy..................... 6
11. Hold Harmless..................................... 6
12. Insurance... 7
13. Specific Restrictions on Development of Real Property......... 7
    (a) Maximum Floor Area............................ 7
    (b) Maximum Height................................ 8

Page

14. Improvements, Facilities and Services 8
  (a) Housing 8
  (b) Open Space 13
  (c) Day-Care Center 15
  (d) Traffic and Emission Abatement 16
  (e) Energy Conservation 17
  (f) Affirmative Action and Job Training 19
  (g) Accessibility 19
  (h) Hotel 20
  (i) Arts and Social Service Fee for Phase I 20
  (j) Arts and Social Service Fee for Phase II 21
  (k) General Services Department 22
14A. Alternate Improvements, Facilities and Services 22
  (a) Housing 22
  (b) Open Space 23
  (c) Day-Care Center 23
  (d) Traffic and Emission Abatement 23
  (e) Energy Conservation 23
  (f) Affirmative Action and Job Training 23
  (g) Accessibility 23
  (h) Hotel 23
  (i) Arts and Social Service Fee for Phase I 23
  (j) Arts and Social Service Fee for Phase II 24
  (k) General Services Department 24
15. Effect of Agreement on Land Use Regulations 24
16. Periodic Review of Compliance with Agreement 25

Page

17. Amendment or Cancellation of Agreement.................... 25
18. Enforcement.. 26
19. Events of Default.. 26
20. Procedure Upon Default................................... 26
21. Damages Upon Termination................................. 28
22. Attorneys' Fees and Costs................................ 28
23. Notices.. 28
24. Rules of Construction and Miscellaneous Terms............ 29
25. Duration of Agreement.................................... 30
26. Recording of Agreement................................... 30
27. Mortgagees... 30

DEVELOPMENT AGREEMENT

THIS AGREEMENT is entered into this ______ day of September, 19__, between Colorado Place, Ltd., a California limited partnership ("Property Owner") and the City of Santa Monica, a Charter City ("City") organized and existing under the laws of the State of California.

RECITALS

This Agreement is predicated upon the following facts:

1. The City intends to enter into binding development agreements with persons having legal or equitable interests in real property for the development of such property, pursuant to the City's Charter and the provisions of state law.

2. Property Owner has requested the City to consider entering into a development agreement and proceedings have been undertaken in accordance with the City's rules and regulations;

3. The City Council of the City has found that the Development Agreement is consistent with the general plan and that the Project complies with all applicable rules, regulations and official policies governing permitted uses of the Real Property, density, conceptual design and improvement except with respect to building height and certain uses planned for the Project which height variances and uses are approved pursuant to paragraph 8 hereof;

NOW THEREFORE, the parties agree:

1. Definitions. In this Agreement, unless the context otherwise requires:

(a) "City" is the City of Santa Monica.

(b) "Project" is the development approved by the City and commonly known as Colorado Place, consisting of Two Phases. Phase I is to consist of approximately 450,000 square feet of usable area and is to be located on that portion of the Real Property designated as the WBA Land on Exhibit A. Phase II is to consist of approximately 450,000 square feet of usable area and is to be located on that portion of the Real Property designated as the Kranz Land on Exhibit A.

(c) "Property Owner" means the limited partnership referred to in paragraph 4 which has legal and equitable interests in the Real Property as described in paragraph 3 and includes the Property Owner's successors in interest;

(d) "Real Property" is the real property referred to in paragraph 3.

(e) "Usable area" means area above grade (excluding parking structure) measured from the finished surface of the office or occupied side of corridor and other permanent walls to the inside finished surface of the dominant portion of the permanent outer building walls, with no deductions for columns and projections necessary to the building.

2. Exhibits. The following documents are referred to in this Agreement, attached and made a part by this reference:

Exhibit Designation	Description	Referred to In Paragraph
A	Real Property	3,4
B	Diagram of Open Space	14(b),14(c),14A(b)
C	Requirements of General Services Department	14(k),14A(k)

3. Description of Real Property. The Real Property which is the subject of this Agreement is described in Exhibit A, and consists of the WBA Land and the Kranz Land as designated thereon.

4. Interest of Property Owner. Property Owner represents that it has legal and equitable interests in the Real Property and that all other persons holding legal or equitable interests in the Real Property are to be bound by this Agreement. The foregoing notwithstanding, it is understood and agreed that title to the Kranz Land as described on Exhibit A is to be held in trust as provided for in the Agreement of Limited Partnership until the General Partner of Property Owner has satisfied the conditions of release contained in the Trust Agreement. In the event that the conditions of release under the Trust Agreement have not been satisfied and the Kranz Land has not been released to Property Owner by August 1, 1985, and Phase I only has been completed, paragraph 14 of this Agreement (entitled "Improvements, Facilities and Services") shall be modified as indicated in paragraph 14A of this Agreement (entitled "Alternate Improvements Facilities and Services"). In

addition, all other rights and obligations of Property Owner and City with respect to the Kranz Land and the development of Phase II only may, upon the occurance of the above-described event, be terminated by either party hereto pursuant to the provisions of this Agreement.

5. Assignment. This Agreement shall not be severable from Property Owner's interest in the Project. Any transfer of the Project shall automatically operate to transfer the benefits and burdens of this Agreement. Property Owner may freely sell, transfer, exchange or otherwise dispose of its interest in the Project without the consent of the City.

6. Binding Effect of Agreement. The burdens of this Agrement bind and the benefits of the Agreement inure to the successors in interest to the parties hereof.

7. Relationship of Parties. It is understood that the contractual relationship between the City and Property Owner is such that the Property Owner is an independent contractor and not the agent of the City.

8. City's Approval of Project. By the adoption hereof, the City approves commercial office building, retail, hotel, and related commercial uses, for the Real Property. Specifically, the Project is approved for all uses identified in Santa Monica Municipal Code Section 9121A (whether such uses are permitted or excluded under such section) with the exception that all uses specified in subparagraph 4a through x of such section shall remain prohibited uses. Height variances are approved for the Project in accordance

with the provisions of paragraph 13 hereof. The development plan provides for the development of the Real Property with not more than 900,000 square feet of usable area.

9. Changes in Project. No material change, modification, revision or alteration may be made in those portions of the development plan which are incorporated into this Agreement under paragraph 13 without review and approval by those agencies of the City approving the plan in the first instance. A material change, modification, revision or alteration in those portions of the development plan which are incorporated into this Agreement under paragraph 13 will not be effective until the parties amend this Agreement to incorporate it.

10. Time for Construction and Completion of Project.

(a) Beginning Construction. Property Owner agrees to begin construction of Phase I of the Project within one hundred twenty (120) days after the execution of this Agreement and to begin construction of Phase II of the project by August 1, 1985, provided that all necessary permits, approvals and financing are obtained for each Phase respectively.

(b) Completion of Project. Property Owner agrees to diligently prosecute to completion the construction of the Project and to complete construction within eight (8) years after the actual construction begins subject to delays reasonably beyond Property Owner's control and the contingencies recited in paragraph 4 hereof.

(c) Certificates of Occupancy. Promptly after completion of each Phase of the Project, the City shall provide the Property Owner with a certificate of occupancy therefor. Upon completion of a portion of any Phase in compliance with building and safety regulations and upon Property Owner's request, City will issue a certificate of occupancy for the portion so completed.

11. Hold Harmless. Property Owner agrees to and shall hold the City, its officers, agents, employees and other representatives harmless from liability for damage or claims for damage for personal injury including death and claims for property damage which may arise from the direct or indirect operations of the Property Owner or those of its contractor, subcontractor, agent, employee or other person acting on its behalf which relate to the Project, including the maintenance and operation of the open space and housing provided for hereunder. Property Owner agrees to and shall defend the City and its officers, agents, employees and representatives from actions for damages as described above caused or alleged to have been caused by reason of Property Owner's activities in connection with the Project.

This hold harmless agreement applies to all damages and claims for damages suffered or alleged to have been suffered by reason of the operations referred to in this paragraph, regardless of whether or not the City prepared, supplied, or approved plans or specifications or both for the Project.

12. Insurance. Property Owner shall maintain public liability insurance throughout the term of this Agreement in amounts reasonably calculated by Property Owner to be sufficient for the size of the Project. The insurance shall extend to the City, its elective and appointive boards, commissions, officers, agents, employees and representatives and to Property Owner and each contractor and subcontractor performing work on the Project. Property Owner shall furnish to City prior to the commencement of construction of the Project satisfactory evidence that such insurance is in force. The insurance shall provide coverage for claims and damage arising out of the operations referred to in paragraph 11 of this Agreement.

13. Specific Restrictions on Development of Real Property. In addition to the zoning classifications and uses permitted under paragraph 8 hereof, the following specific restrictions shall also govern the use of the Real Property:

(a) Maximum Floor Area. Maximum floor area of the Project shall not exceed 900,000 square feet of usable area above grade (excluding parking structure), defined as the area measured from the finished surface of the office or occupied side of corridor and other permanent walls to the inside finished surface of the dominant portion of the permanent outer building walls, with no deductions for columns and projections necessary to the building. Areas set aside for the day care center referred to in paragraph 14 (c) shall be specifically excluded.

(b) Maximum Height. Under this Agreement building height shall be measured from the top of the first floor slab to the top of the roof slab.

(1) The average building height for all buildings in Phase I of the Project shall not exceed forty-five (45) feet.

(2) The average building height for buildings in Phase II which are designated primarily for office uses shall not exceed sixty-five (65) feet. The average building height for buildings in Phase II which are designated for hotel uses shall not exceed ninety-six (96) feet. Average building height shall be determined as the sum total of unit building heights divided by the sum total of first floor gross building areas (footprint). A unit building height shall be the height of each square foot of roof area directly over a square foot of building area, measured vertically from the top of first floor slab to the top of roof slab.

14. Improvements, Facilities and Services. Property Owner agrees to provide the following improvements, facilities and services:

(a) Housing. In light of the City's current shortage of housing that is affordable to persons of low and moderate incomes, and as a means of addressing any increase in the demand for such housing associated with the development of the Project, Property Owner agrees to provide one hundred (100) rental units in new or existing buildings in the City of Santa Monica subject to the terms and conditions of this paragraph 14(a). For purposes of this paragraph, the term "existing buildings" does not include any building that

Median income means the median income for the County of Los Angeles as determined by the United States Department of Housing and Urban Development.

A housing unit provided hereunder is affordable if the annual housing cost does not exceed 25% of annual income.

After initial occupancy, Property Owner is not in breach of this condition if the income of a person or family increases during the period of occupancy.

(2) Distribution of Units. The housing provided by Property Owner shall include, but not be limited to, housing for handicapped persons, senior citizens, and families with children. The housing shall consist of the following mix of units by bedroom size, which mix shall apply to the entire housing requirement hereunder and not to any group or scheduled portion of units.

(i) No more than 50% of units shall be one bedroom units.

(ii) At least 25% of the units shall be two bedroom units.

(iii) At least 15% of units shall be three or more bedroom units.

(3) Priority. The housing shall be made available to eligible persons and families in the following order of priority: first, employees of the Project who reside in the City; second, employees of the Project who

reside outside the City; third, non-employees of the Project who reside in the City; and fourth, non-employees of the Project who reside outside the City.

(4) Verification of Eligibility. Property Owner shall maintain such records as are required by the City to verify eligibility for housing provided hereunder. The records shall be open for inspection and copying by City during normal business hours of Property Owner. Property Owner shall require as a part of such records a statement from each employee of the Project who applies to rent the housing provided hereunder certifying that said housing is not being provided to that employee as a part of that employee's compensation or wages from his or her employer.

(5) Time. Property Owner shall provide the units on the following schedule:

(i) Fifteen (15) units to be available for occupancy within eighteen (18) months of the date of issuance of the first certificate of occupancy for Phase I of the Project.

(ii) Thirty-five (35) units to be available for occupancy within thirty-six (36) months of the date of issuance of the first certificate of occupancy for Phase I of the Project.

(iii) Fifteen (15) units to be available for occupancy within eighteen (18) months of the date of issuance of the first certificate of occupancy for Phase II of the Project.

(iv) Thirty-five (35) units to be available for occupancy within thirty-six (36) months of the date of issuance of the first certificate of occupancy for Phase II.

(6) Duration of Housing Requirement. The housing provided pursuant to subparagraphs (5)(i) and (5)(ii) of this paragraph 14(a) shall be provided for 40 years or for the life of Phase I of the Project, whichever period is greater. The housing provided pursuant to subparagraphs (5)(iii) and (5)(iv) of this paragraph 14(a) shall be provided for 40 years or for the life of Phase II of the Project, whichever period is greater.

(7) City Cooperation. The City shall cooperate with Property Owner in expediting the issuance of permits necessary in connection with the housing required hereunder. City shall provide such cooperation as it deems appropriate to assist Property Owner in securing favorable financing for the housing required hereunder.

(8) Failure to Provide Housing. In the event Property Owner fails to provide the housing units specified under this paragraph 14(a), the City, at its election, shall be entitled to one of the following remedies:

(i) In an action for specific performance, the number of units that Property Owner shall be required to provide hereunder may be increased by the sum of the following: 1) ten percent (10%) of the number of units which Property Owner is found to have failed to provide, rounded up to the next highest whole unit and 2) two percent (2%) of the number of units which Property Owner is found to have failed to provide, multiplied by the number of calendar months for which Property Owner is found to have failed to provide said units based on the schedule in paragraph 14(a)(5) hereof, rounded up or down to the nearest whole unit.

(i) In an action for damages, the amount of recoverable damages may be calculated by determining the costs that the City would be required to incur if it were to provide the same number of units that Property Owner is found to have failed to provide.

(b) Open Space. As a means of improving the supply of public open space available to persons living near or working in the Project Property Owner shall provide open space as described herein on the terms and conditions set forth below:

(1) The development will provide for open space, landscaped areas, park and plaza uses as more particularly described in Exhibit B attached hereto and made a part hereof. Property Owner shall be responsible for the cost of constructing, maintaining and operating such open space area, including the cost of planning and providing public events, displays, performances and the like. During hours that plaza and passive park areas are generally open to the public, no person may be excluded from plaza and passive park areas except to the extent that the City is permitted by law to exclude a person from a City-owned park.

(2) The area designated in Exhibit B hereto as "Park" shall be designed and used for public recreational uses. Prior to the issuance of a building permit for Phase II of the Project, Property Owner shall submit to and receive the approval of the City for the design of the Park area. The Park shall consist of 150,000 square feet (approximately 3.44 acres) of area unless in reviewing the plans for Phase II the City, at its discretion, determines that some lesser area, but not less than 133,000 square feet (approximately 3.06 acres), is appropriate to enhance the design of the Project consistent with the purposes of this Agreement. The Park shall include both passive and active recreation areas,

and shall include at least one area or facility for organized athletic sport. Property owner shall execute such documents as are necessary to insure that the Park area is made available for public recreation uses as herein described until such time as the buildings constituting the Project are demolished, subject to the following terms and conditions:

(i) Park is open and accessible to the public twenty-four (24) hours per day, seven days per week, subject only to seasonal or periodic closings of areas for maintenance, repair or the like.

(ii) No person may be excluded from the Park by Property Owner except to the extent that the City is permitted by law to exclude a person from a City-owned park.

(iii) Park may be used by the public to the same extent as a public park of the City with similar facilities, including as a public place for free speech activities, and subject to reasonable regulation as permitted by law. Such regulations, to the extent they exceed existing City regulations concerning the use of public parks, shall be subject to reasonable approval by the City.

(iv) Property Owner shall identify to the public a representative whose responsibility it shall be to maintain communication with community groups or individuals using or interested in using the Park, including attending public meetings to discuss Park activities and programs. Property Owner, through said representative, shall make a good faith attempt to effectively respond to the recreational needs of the neighboring community.

(v) The City may schedule with Property Owner recreation programs and activities in the park at such times as do not conflict with programs or activities provided by Property Owner. In scheduling its own programs and activities, Property Owner shall ensure that sufficient times are available for programs and activities scheduled by City.

(c) Day-Care Center. A day-care center consisting of approximately 2,000 square feet of indoor space plus appropriate outdoor play area, will be contained within the Project and considered as a part of the open space program as shown on Exhibit B hereto and such facility will be made available for lease to qualified licensed day-care operators at the rate of one dollar ($1.00) per year on a triple net basis (exclusive of maintenance, taxes and insurance.). The day-care center will be located in Phase I of the Project and will be made available for lease and be suitable for tenant improvements no later than the completion date of Phase I. The City shall have a right of first refusal to become lessee of the day-care center in the first instance, if the city can demonstrate to Property Owner's reasonable satisfaction that it meets the qualifications required of prospective lessees. Property Owner shall have the right to terminate the lease upon the failure of the lessee to meet the standards of operation specified in the lease. The lessee shall have no right to sublet or assign the day-care center space. Property Owner shall submit its proposed day-care center lease to the City Attorney for approval as to form, required qualifications of prospective operators and rates to be charged prior to the completion of Phase I.

Property Owner shall provide the following improvements to the day-care center: finished lavatories meeting state standards for day-care centers; finished inside walls, taped, spackled and painted; vinyl tile floor and wall base; acoustic tile ceiling; fluorescent lighting; storefront and entrance door; primary distribution of HVAC to the space; primary distribution of electric service to the space; primary and secondary distribution of sprinklers as required by fire department regulations for unoccupied space; building standard window blinds. In addition, the lease shall include as part of the improvements the provision by Property Owner of outdoor play equipment plus a tenant allowance of not more than five thousand dollars ($5,000.00) for necessary furnishings and equipment for the indoor area.

Property Owner shall continue to provide space for the above-described day-care center so long as a qualified lessee operates the center under the terms of the approved lease. If the space is not operated as a day-care center for more than two (2) consecutive months then the City shall enter into a lease to operate the day-care center, which lease shall be Property Owner's day-care center lease as approved in accordance with this paragraph 14(c). If the space is not operated as a day-care center for more than six (6) consecutive months for the sole reason that no qualified operator seeks to operate it then Property Owner may release the space for other purposes. The time periods specified in this paragraph 14(c) shall commence and run only upon written notice by Property Owner to City of such commencement.

(d) Traffic and Emission Abatement. Property Owner will designate a representative whose responsibility it will be to prepare and submit to the City for approval prior to the completion of Phase I a program designed to actively encourage and promote among the tenants of the Project the following traffic and emission abatement measures:

(1) Staggered hours or "flex-time" among different tenants and/or within divisions or departments of larger tenants.

(2) Compilation and distribution of ride-share lists and computer scheduling of car-pools and van-pools for all employees of all tenants.

(3) Reduced parking rates for car-pools and van-pools.

(4) Use of public transit facilities, including actively working with the Santa Monica Municipal Bus Line or its designee to improve service to and from the Project and implementing public transit incentives such as bus passes for employees.

(5) Readily available bicycle parking areas.

(6) Such other measures that Property Owner determines will reduce traffic impact of the Project.

These traffic abatement measures will be initiated no later than upon occupancy of the first 50% of Phase I of the Project.

(e) Energy Conservation. The Project will comply with all provisions of California Title 24 Energy Regulations, and will include as a minimum the following features which meet or exceed the City's Proposed Energy Code:

(1) Energy Management System. All air conditioning and other mechanical equipment and motors will be started and stopped from the system console and water and air temperatures can be remotely reset. The foregoing, in conjunction with remote sensing of outside and inside conditions, will

permit system operation refinements resulting in energy optimization, and will prevent unncessary energy consumption during business and non-business hours. This system will also be used to control the use of lighting.

(2) Air Conditioning. An economizer or "free cooling" cycle will be used which will enable the use of outdoor air rather than mechanically refrigerated air whenever outside temperature permits. Variable volume air distribution systems will allow air supply quantities to be reduced as cooling load decrease resulting in reduced fan power consumption at reduced loads. Air supply to periodically unoccupied areas, such as conference rooms, can be minimized. Low pressure air distribution systems will be utilized to minimize fan horsepower. Cold plenum temperature at air conditioning units will be reset automatically to a higher temperature (when air conditions warrant) with resultant energy savings.

(3) Lighting. High efficiency fluorescent lamp/ballast systems will minimize energy consumption. Maximum provisions for local light switching will be provided to permit use of lighting only when space is occupied. Photo cell control of lighting in areas where natural illumination could suffice will be provided. Exterior and certain operational lighting will be controlled from the energy management system to optimize operation and minimize energy consumption. Where decor or function dictate the use of incandescent or tungsten halide lighting, extensive dimming equipment will be provided to optimize operation and increase lamp life.

(4) Solar Heating. Solar panels, roof mounted, will provide domestic water heating.

(5) Operable Windows. Operable windows will be provided in atrium areas. Sliding glass doors will open to outside terraces.

(6) Other Energy Considerations. High efficiency roof and wall insulation as well as heat absorbing solar grey glass will be utilized to reduce cooling and heating loads. All air supply ducts will be insulated to reduce energy losses to non-conditioned spaces. Hot water piping and storage tanks will be fully insulated. Water-saving flush valves will be provided for toilet fixtures. Sun shading of windows will be incorporated where appropriate to further reduce air conditioning requirements.

(f) Affirmative Action and Job Training. Property Owner will designate a representative whose responsibility it will be to identify and target those areas suitable for affirmative action and to develop and submit to the City for approval prior to the completion of Phase I a program designated to effectively address problem areas. Property Owner's representative will, in consultation with appropriate neighborhood organizations, design and actively promote among the tenants of the project job training programs that address the needs of the neighborhoods surrounding the Project.

(g) Accessibility. The Project, including the Park and all open space, shall be accessible to handicapped persons.

(h) Hotel. Unless Property Owner is unable to secure commercially reasonable financing, Property Owner shall include in Phase II of the Project a hotel of not less than two hundred fifty (250) guest rooms. Property Owner shall use its best efforts to secure such commercially reasonable financing for said hotel. Property Owner shall promptly notify City if Property Owner determines that it is unlikely that such financing can be secured, in which case City shall cooperate with and assist Property Owner for a period of six months from the date of said notice, or for such other period as is mutually agreed upon, in securing such financing.

(i) Arts and Social Service Fee for Phase I. Property Owner shall pay to City an Arts and Social Service Fee equal to one and one-half percent (1.5%) of the following: the sum of the cost to Property Owner of the WBA Land and the cost of construction of Phase I, exclusive of the cost of construction interest and other financing fees and the cost of construction of the day-care center. At the election of Property Owner, which election shall be made in writing to City prior to the issuance of the final certificate of occupancy for Phase I, Property Owner may pay said Fee either 1) in full within thirty (30) days of the issuance of the final certificate of occupancy for Phase I, or 2) in twenty (20) annual installments computed as follows: the first installment shall be an amount equal to one-twentieth of the total Fee as above calculated less Property Owner's actual costs of maintaining and operating the open space provided in Phase I of the Project; the first installment shall be due and payable on the first July 1 following the issuance of the last certificate of occupancy for Phase I; the costs of maintaining and operating the open space shall be computed from the time of completion of the open space until said first July 1 date. Each subsequent annual payment shall be due and payable on the next following July 1 in an amount calculated as follows: one-twentieth of the total Fee, increased by a percentage equal to the percentage increase in the Consumer Price Index for All Urban Consumers for the Los Angeles - Long Beach - Anaheim Metropolitan Area as issued by the United States Department of Labor from July 1 of the previous year to July 1 of the year in which the installment is due, less Property Owner's actual costs of maintaining and operating the open space from the previous July 1 to July 1 of the year in which the installment is due.

(j) Arts and Social Services Fee for Phase II. Property Owner shall pay to City an Arts and Social Service Fee equal to one and one-half percent (1.5%) of the following: the sum of 1) the cost to Property Owner of the Kranz Land, reduced proportionately by the percentage of the Kranz Land which is used for the Park described in paragraph 14 (b)(2) of this Agreement, and 2) the cost of construction of Phase II exclusive of the cost of construction interest and other financing fees. At the election of Property Owner, which election shall be made in writing to City prior to the issuance of the final certificate of occupancy for Phase II, Property Owner may pay said Fee either 1) in full within thirty (30) days of the issuance of the final certificate of occupancy for Phase II, or 2) in twenty (20) annual installments beginning the first July 1 following the issuance of the last certificate of occupancy for Phase II. If Property Owner elects to pay the Fee in annual installments then paragraph 14(i) of this Agreement shall be modified as herein provided to combine the Phase I Fee and Phase II Fee as follows: the total annual installment shall be the sum of the Phase I annual installment and the Phase II annual installment. Each total annual installment shall be due and payable on July 1 of each year as adjusted by the Consumer Price Index in paragraph 14(i) hereof and shall be offset by the total costs of operating and maintaining the open space areas of the entire Project for the period from July 1 of the previous year to July 1 of the year in which the installment is due.

(k) General Services Department. Property Owner shall comply with the requirements of the City Department of General Services which requirements are enumerated on Exhibit C attached hereto and made a part hereof. Property Owner shall not be subject to any further requirements of the City General Services Department in addition to those contained in Exhibit C hereto and any others agreed to prior to the effective date of this Agreement in connection with the construction of the Project.

14A. Alternate Improvements, Facilities and Services. The effectiveness of this paragraph 14A is contingent upon the occurance of the event described in paragraph 4 of this Agreement. If said event does not occur as so described, this paragraph 14A shall have no force or effect whatsoever. Upon the occurance of said event this paragraph 14A shall be implemented to modify paragraph 14 of this Agreement only to the extent indicated herein. All provisions of paragraph 14 not inconsistent with this paragraph 14A shall remain in full force and effect.

(a) Housing. Property owner shall be required to provide fifty (50) units of low-to-moderate income housing in connection with the development of Phase I of the Project under the terms specified in paragraph

14(a) hereof. No additional housing will be required in connection with the Project. The time schedule shall be the same as that described in paragraphs 14(a)(5)(i) and 14(a)(5)(ii) hereof.

(b) Open Space. Property Owner's obligation to provide open space shall be limited to those open space areas constructed as a part of Phase I of the Project. Property Owner shall have no obligation to create or operate the area designated as Park in Exhibit B hereto.

(c) Day-Care Center. This requirement shall remain as described in paragraph 14(c) hereof.

(d) Traffic and Emission Abatement. This requirement shall remain as described in paragraph 14 (d) hereof.

(e) Energy Conservation. This paragraph shall remain as described in paragraph 14 (e) hereof.

(f) Affirmative Action and Job Training. This requirement shall remain the same as described in paragraph 14 (f) hereof.

(g) Accessibility. This requirement shall remain as described in paragrah 14 (g) hereof.

(h) Hotel. Delete paragraph 14 (h) hereof.

(i) Arts and Social Service Fee for Phase I. This requirement shall remain as described in paragraph 14 (i) hereof.

(j) Arts and Social Service Fee for Phase II. Delete paragraph 14 (j) hereof.

(k) General Services Department. Delete those items in Exhibit C hereto pertaining to Phase II.

15. Effect of Agreement on Land Use Regulations. The rules, regulations and official policies governing permitted uses of the Real Property, the density of the Real Property, the design, improvement and construction standards and specifications applicable to development of Real Property, including those sections of the Santa Monica Municipal Code referred to herein, are and shall remain those rules, regulations and official policies in force at the time of the execution of this Agreement, except that all uses specified in paragraph 8 shall be permitted and height restrictions modified as delineated in paragraph 13.

This Agreement does not prevent the City in subsequent actions applicable to the Real Property from applying new rules, regulations and policies which do not conflict with those rules, regulations and policies applicable to the Real Property as set forth in this Agreement. This Agreement does not prevent the City from denying or conditionally approving any subsequent development project application on the basis of existing or new rules, regulations and policies.

Any provisions of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this Agreement, to the extent of such inconsistencies and no further, are hereby repealed or modified to that extent necessary to effect the provisions of this Agreement.

The building permit for Phase I of the Project currently being held by the Planning Department of the City shall be issued to Property Owner immediately upon enactment of this Agreement. This permit constitutes the full building permit for Phase I and shall remain effective so long as Property Owner complies with plan checks and corrections issued by the City Building Department. Architectural Review Board approval shall be required for the Phase I landscape plan only. Such approval is not a prerequisite to the issuance of the Phase I building permit, but must be secured prior to the commencement of landscape work. Phase II of the Project shall comply with all applicable City Architectural Review procedures.

16. Periodic Review of Compliance with Agreement.

(a) The City shall review this Agreement at least once every 12 month period from the date this Agreement is executed.

(b) During each periodic review by the City, the Property Owner is required to demonstrate good faith compliance with the terms of the Agreement.

17. Amendment or Cancellation of Agreement. This Agreement may be amended or cancelled in whole or in part only by mutual consent of the parties and in the manner provided for by law.

18. Enforcement. Unless amended or cancelled as provided in paragraph 17, this Agreement is enforceable by any party to it notwithstanding a change in the applicable general or specific plan, zoning, subdivision or building regulations adopted by the City which alter or amend the rules, regulations or policies governing permitted used of the land, density, design, improvement and construction standards and specifications.

In any litigation concerning this Agreement neither party hereto shall assert as a claim or defense the invalidity of this Agreement.

19. Events of Default. Property Owner is in default under this Agreement upon the happening of one or both of the following events or conditions:

(a) If a warranty, representation or statement made or furnished by Property Owner to the City is false or proves to have been false in any material respect when it was made;

(b) Property Owner has not complied with one or more of the terms or conditions of this Agreement.

20. Procedure Upon Default.

(a) Upon the occurrence of an event of default, the City may declare Property Owner to be in default and may enforce, terminate or modify this Agreement in accordance with applicable procedures. Prior to any declaration of default written notice must be given to Property Owner of the nature of such default and Property Owner shall have ninety (90) days to cure said default, unless the default is due to Property Owner's failure to provide housing as specified in paragraph 14(a) hereof, in which case the City shall have available to it those remedies described in said paragraph 14(a).

Upon the occurrence of an event of default on the part of the City, and prior to Property Owner instititing any action to enforce the Agreement, Property Owner shall give written notice to City of the nature of such default and City shall have ninety (90) days to cure said default.

(b) An express repudiation, refusal or renunciation of the contract, if the same is in writing and signed by the Property Owner, shall, at the sole election of the City, be sufficient to terminate this Agreement and a hearing on the matter shall not be required.

(c) Non-performance shall be excused when it is prevented or delayed by reason of any of the following forces reasonably beyond the control of the Property Owner:

(1) War, insurrection, riot, flood, severe weather, earthquake, fire, casualty, acts of a public enemy, governmental restriction, litigation, acts or failures to act of any governmental agency or entity;

(2) Inability to secure necessary labor, materials or tools, strikes, lockouts, delays of any contractor, subcontractor or supplier, but non-performance shall be excused for a total cumulative period of not more than six (6) months under any or all of the forces enumerated in this subparagraph 20(c)(2).

(d) All remedies at law or in equity, including specific performance, which are not otherwise provided for in this Agreement or in the City's regulations governing development agreements are available to the parties to pursue in the event there is a breach.

21. Damages Upon Termination. In no event shall Property Owner be entitled to any damages against City upon termination of this Agreement unless such termination is in breach of the Agreement. Upon any such termination of this Agreement, the parties hereto shall execute an appropriate notice of termination suitable for recording in the official records of Los Angeles County.

22. Attorneys' Fees and Costs. If legal action by either party is brought because of breach of this Agreement or to enforce a provision of this Agreement, the prevailing party is entitled to reasonable attorneys' fees and court costs.

23. Notices. All notices required or provided for under this Agreement shall be in writing and delivered in person or sent by certified mail, postage prepaid. Notice required to be given to City shall be addressed as follows:

City Attorney
City of Santa Monica
1685 Main Street
Santa Monica, California 90401

Notices as required to be given to Property Owner shall be addressed as follows:

Becket Investment Corporation
2900 31st Street
Santa Monica, California 90405
Attn: MacDonald G. Becket, Jr.

and

Thomas F. Kranz
9720 Wilshire Boulevard
Third Floor
Beverly Hills, California 90212

A party may change the address by giving notice in writing to the other party and thereafter notices shall be addressed and transmitted to the new address.

24. Rules of Construction and Miscellaneous Terms.

(a) The singular includes the plural; "shall" is mandatory, "may" is permissive.

(b) If a part of this Agreement is held to be invalid, the remainder of the Agreement is not affected.

(c) If there is more than one signer of this Agreement their obligations are joint and several.

25. Duration of Agreement. This Agreement shall expire on September 15, 2036. After expiration or full satisfaction the parties shall execute an appropriate certificate of termination which shall be recorded in the official records of Los Angeles County.

26. Recording of Agreement. The parties hereto shall cause this Agreement to be recorded in the official records of the County of Los Angeles.

27. Mortgagees. The foregoing provisions of this Development Agreement to the contrary notwithstanding, it is agreed that the following provisions shall apply should the fee interest of the Property Owner become encumbered with a first lien deed of trust or mortgage ("Deed of Trust"):

(a) In the event that an institutional lender or pension trust holding a Deed of Trust ("Mortgagee") or a third party purchaser ("Purchaser") obtains title to all or any portion of the Project after default by Property Owner and pursuant to the good faith exercise of remedies provided for in the Deed of Trust or through the good faith acceptance of a deed or assignment in lieu of foreclosure (but excluding any Mortgagee or Purchaser taking title subsequent to a refinancing of the initial permanent loans on the Project and also excluding any Mortgagee or Purchaser in which Property Owner or any partner or owner thereof has an ownership interest, unless such interest is nominal), this Agreement shall be modified as follows:

(1) Mortgagee and/or Purchaser shall be exempt from the performance of Property Owner's obligations and duties under paragraphs 14(a) and 14A(a) of this Agreement. Property Owner shall remain obligated to provide the housing required by this Agreement as specified in paragraphs 14(a) and 14A(a) hereof.

(2) Mortgagee and/or Purchaser shall not be responsible, unless such obligation is voluntarily assumed in writing by such Mortgagee and/or Purchaser, for "costs of planning and providing public events, displays, performances and the like" as required of Property Owner under paragraphs 14(b)(1) and 14A(b) hereof, but such Mortgagee and/or Purchaser agrees to cooperate with City and to permit City use of and access to the open space to provide public events, displays, performances and the like.

(3) Mortgagee and/or Purchaser shall be exempt, unless such obligation is voluntarily assumed in writing by such Mortgagee and/or Purchaser, from the performance of Property Owner's obligations and duties under paragraph 14(b)(2)(iv) hereof, but such Mortgagee and/or Purchaser agrees to cooperate with City and to permit City, as indicated above, to provide community groups and individuals use of the open space.

(4) Mortgagee and/or Purchaser shall not be responsible for the failure of the tenants of the Project to institute traffic and emission abatement measures as required under paragraphs 14(d) and 14A(d) hereof, it being agreed that a "best efforts" approach by such Mortgagee and/or Purchaser would satisfy the requirements of such paragraph.

(5) Mortgagee and/or Purchaser shall not be responsible for the failure of tenants of the Project to institute affirmative action or job training programs as required under Paragraph 14(f) and 14A(f) hereof, it

being agreed that a "best efforts" approach by such Mortgagee and/or Purchaser would satisfy the requirements of such paragraph.

(b) Mortgagee shall have the right to give City notice of the existence of Mortgagee's interest in the Project and thereafter, City shall deliver to such Mortgagee a copy of any and all notices given by City to Property Owner.

(c) Mortgagee shall have the right, but not the obligation to cure any default of Property Owner within the time allowed Property Owner to cure such default plus thirty (30) days. City shall accept the performance of Mortgagee as if such performance were rendered by Property Owner.

(d) Mortgagee and/or Purchaser shall have no obligation or liability under this Agreement unless it/they shall obtain title to all or any portion of the Project by any of the means set forth in subparagraph (a) above, and if Mortgagee and/or Purchaser should obtain title to all or any portion of the Project by any of the means set forth in subparagraph (a) above, it/they shall have no further obligation or liability under this Agreement after it/they has/have assigned or otherwise transferred title to another party.

(e) No default hereunder or breach of this Development Agreement by Property Owner shall defeat, impair or render invalid the lien of any deed of trust made in good faith and for value as to the Project or any portion thereof.

(f) In the event of a transfer of title to all or any portion of the Project by any of the means set forth in paragraph 27(a) above, any proceeds to which Property Owner would otherwise be entitled shall be deposited into a trust account mutually agreed to by Property Owner and City in the amount of $50,000.00 (adjusted by the percentage change in the Consumer Price Index for All Urban Consumers for the Los Angeles -Long Beach -Anaheim Metropolitan Area from the effective date of this Agreement to the date upon which the money is deposited) for each housing unit required but not yet provided under paragraph 14(a) or 14A(a) with respect to the Phase transferred. Any other proceeds shall be distributed to the Property Owner.

Any funds deposited into a trust account as required by this paragraph 27(f) shall be distributed as follows and the agreement establishing the trust account shall so provide: First, to Property Owner to provide the number of housing units required but not yet provided under paragraph 14(a) or 14A(a); second, if Property Owner fails to use the funds to provide the required housing, to City to provide the number of housing units required but not yet provided under paragaph 14(a) or 14A(a); then all remaining funds, if any, to Property Owner.

IN WITNESS WHEREOF this Agreement has been executed by the parties on the day and year first above written.

Approved as to form:	City of Santa Monica
______________________________	By: ____________________________
	Attest: _________________________
	Colorado Place, Ltd., a California limited partnership
______________________________	By: Welton Becket Associates, a California corporation, as general partner
Acknowledgements	By: ____________________________

WBA LAND

PARCEL 1:

Lots 3 and 4 of Tract 9774, in the City of Santa Monica, County of Los Angeles, State of California, as per map recorded in Book 140 Pages 64 to 66 of Maps, in the Office of the County Recorder of said County, except the northwesterly 300 feet thereof.

Also except that portion of Lot 3, Tract No. 9774, described as follows:

Beginning at the southerly corner of said Lot 3; thence northwesterly along the southwesterly line of said Lot 3; a distance of 299.47 feet, more or less, to the southerly corner of Lot 4, Tract No. 14511, recorded in Map Book 302, Page 50, in said office; thence northeasterly, along the southeasterly line of said Lot 4, a distance of 14.08 feet; thence south 41 degrees 42 minutes 02 seconds east a distance of 100.58 feet to the beginning of a tangent curve concave northeasterly having a radius of 2,112 feet; thence southeasterly along said curve an arc distance of 88.59 feet to a point of tangency on a line parallel with and distant 8 feet northeasterly, measured at right angles, from the southwesterly line of said Lot 3; thence south 44 degrees 06 minutes 14 seconds east along said parallel line a distance of 95.42 feet to the beginning of a tangent curve concave northerly and having a radius of 15 feet; thence easterly along the last mentioned curve an arc distance of 23.57 feet, more or less, to a point in the southeasterly line of said Lot 3 distant thereon 23 feet northeasterly from the point of beginning; thence southwesterly along said southeasterly line of said Lot 3 to the point of beginning, as deeded to the City of Santa Monica by deed recorded July 26, 1971 as Instrument No. 1085.

Excepting from those portions of Lots 3 and 4 above described therefrom all minerals, hydrocarbon substances and mineral rights lying below the surface of said land but without the right of entry upon or using the surface thereof, as conveyed to Western Republic Co., Ltd., a limited partnership, doing business as Western Hemisphere Oil Exploration Co., by deed recorded March 3, 1959 as Instrument No. 4180 in Book D-386 Page 456, Official Records, and as amended by an instrument entitled "Amended Grant of All Minerals and Mineral Rights and Acceptance", dated February 24, 1960, executed by Birch Investment, Inc., a corporation, and Western Republic Co., Ltd., a limited partnership, and recorded June 10, 1960 as Instrument No. 1965 in Book M-531 Page 377, Official Records.

PARCEL 2:

A parcel of land situated in the City of Santa Monica, County of Los Angeles, State of California, being all that portion of the northeasterly 50 feet of Lot 10, Block 4, of the Orchard Tract, as per map recorded in Book 60 Pages 15 and 16 of Miscellaneous Records, in the Office of the County Recorder of said County, lying southeasterly of the southwesterly prolongation of a line parallel with and 300 feet southeasterly, measured at right angles from the northwesterly boundary of Lot 4 of Tract 9774, as per map recorded in Book 140 Pages 64, 65 and 66 of Maps, in the Office of the Country Recorder of said County.

(Continued)

Exhibit A

WBA LAND (Continued)

Excepting from that portion of Lot 10 Block 4 of above description, the title and exclusive right to all of the minerals and mineral ores of every kind and character, occuring 500 feet beneath the surface thereof, now known to exist or hereafter discovered upon, within or underlying said land or that may be produced therefrom, including without limiting the generality of the foregoing, all petroleum, oil, natural gas and other hydrocarbon substances and products derived therefrom, together with the exclusive and perpetual right of said grantor, its successors and assignees, of ingress and egress beneath the surface of said land to explore for, extract, mine and remove the same, and to make such use of said land beneath the surface as is necessary, or useful in connection therewith, and other use thereof, which uses may include lateral or slant drilling, digging, boring or sinking of wells, shafts or tunnels to other lands not subject to those reservations and easements provided, however, that said grantor, its successors and assigns, shall not use the surface of said land in the exercise of any of said rights, and shall not disturb the surface of said land or any improvements thereon, or remove or impair the lateral or subjacent support of said land, or any improvements thereon, and shall conduct no operations within 500 feet of the surface of said land, as reserved in the deed from Pacific Electric Railway Company, a corporation, recorded November 21, 1960 as Instrument No. 849 in Book D-1040 Page 680, Official Records.

KRANZ LAND

PARCEL 1:

The northwest 300.00 feet of Lot 4 of Tract No. 9774, in the City of Santa Monica, County of Los Angeles, State of California, as per map recorded in Book 140 Page 64 of Maps in the Office of the County Recorder of said County.

PARCEL 2:

The northeasterly 50 feet of Lot 10 in Block 4 of the Orchard Tract, in the City of Santa Monica, County of Los Angeles, State of California, as per map recorded in Book 60 Pages 15 and 16 of Miscellaneous Records, in the Office of the County Recorder of said County.

EXCEPT the northwesterly 40 feet of the northeasterly 50 feet of said Lot 10.

ALSO EXCEPT that portion of said northeasterly 50 feet lying southeasterly of the southwesterly prolongation of a line parallel with and 30 feet southeasterly, measured at right angles, from the northwesterly boundary of Lot 4 of Tract No. 9774, as per map recorded in Book 140, Pages 64, 65 and 66 of Maps in the Office of the County Recorder of said County.

PARCEL 3:

The northeasterly 41.74 feet, measured along the northwesterly and southeasterly lines, of Lot 1 of Tract No. 14511, in the City of Santa Monica, County of Los Angeles, State of California, as per map recorded in Book 302, Page 50 of Maps in the Office of the County Recorder of said County.

(Continued)

Exhibit A

KRANZ LAND (Continued)

PARCEL 4:

The northeasterly 41.74 feet, measured along the northwesterly and southeasterly lines, of Lot 4 of Tract No. 14511, in the City of Santa Monica, County of Los Angeles, State of California, as per map recorded in Book 302, Page 50 of Maps in the Office of the COunty Recorder of said County.

PARCEL 5:

That portion of Lots 1, 2 and 4 of Tract No. 14511, in the City of Santa Monica, County of Los Angeles, State of California, as per map recorded in Book 302, Page 50 of Maps, in the Office of the County Recorder of said County, described as follows:

Beginning at the most northerly corner of said Lot 1; thence along the northeasterly line of said Lots 1 and 4, south 44 degrees 45 minutes 19 seconds east 300 feet to the most easterly corner of said Lot 4; thence along the southeasterly line of said Lot 4, south 45 degrees 15 minutes west 141.74 feet, more or less, to the most southerly corner of the land described in the deed to Frank G. Kranz, recorded on December 30, 1955 as Instrument No. 4905, in Book 49935, Page 376, of Official Records of said County; thence along the southwesterly line of said land of Kranz, north 44 degrees 44 minutes 20 seconds west 300 feet to the northwesterly line of said Lot 2; thence along the northwesterly line of said Lots 2 and 1, north 45 degrees 15 minute east 141.74 feet, more or less, to the point of beginning.

EXCEPT THEREFROM the northeasterly 41.74 feet, measured along the northwesterly and southeasterly lines, of said Lots 1 and 4.

PARCEL 6:

That portion of Lots 2, 3 and 4 of Tract No. 14511, in the City of Santa Monica, County of Los Angeles, State of California, as per map recorded in Book 302, Page 50 of Maps, in the Office of the County Recorder of said County, described as follows:

Beginning at the most westerly corner of said Lot 3; thence north 45 degrees 15 minutes east along the northwesterly line of said Lots 3 and 2 a distance of 200 feet, more or less, to the most westerly corner of the land described in the deed to Frank G. Kranz recorded on December 30, 1955 as Instrument No. 4905, in Book 49935, Page 376, of Official Records of said County; thence along the southwesterly line of said land of Kranz, south 44 degrees 44 minutes 20 seconds east 300 feet to the southeasterly line of said Lot 4; thence along said southeasterly line south 45 degrees 15 minutes west to the most southerly corner of said Lot 4; thence along the southwesterly lines of said Lots 4 and 3, north 44 degrees 41 minutes 20 seconds west 300 feet to the point of beginning.

Exhibit A

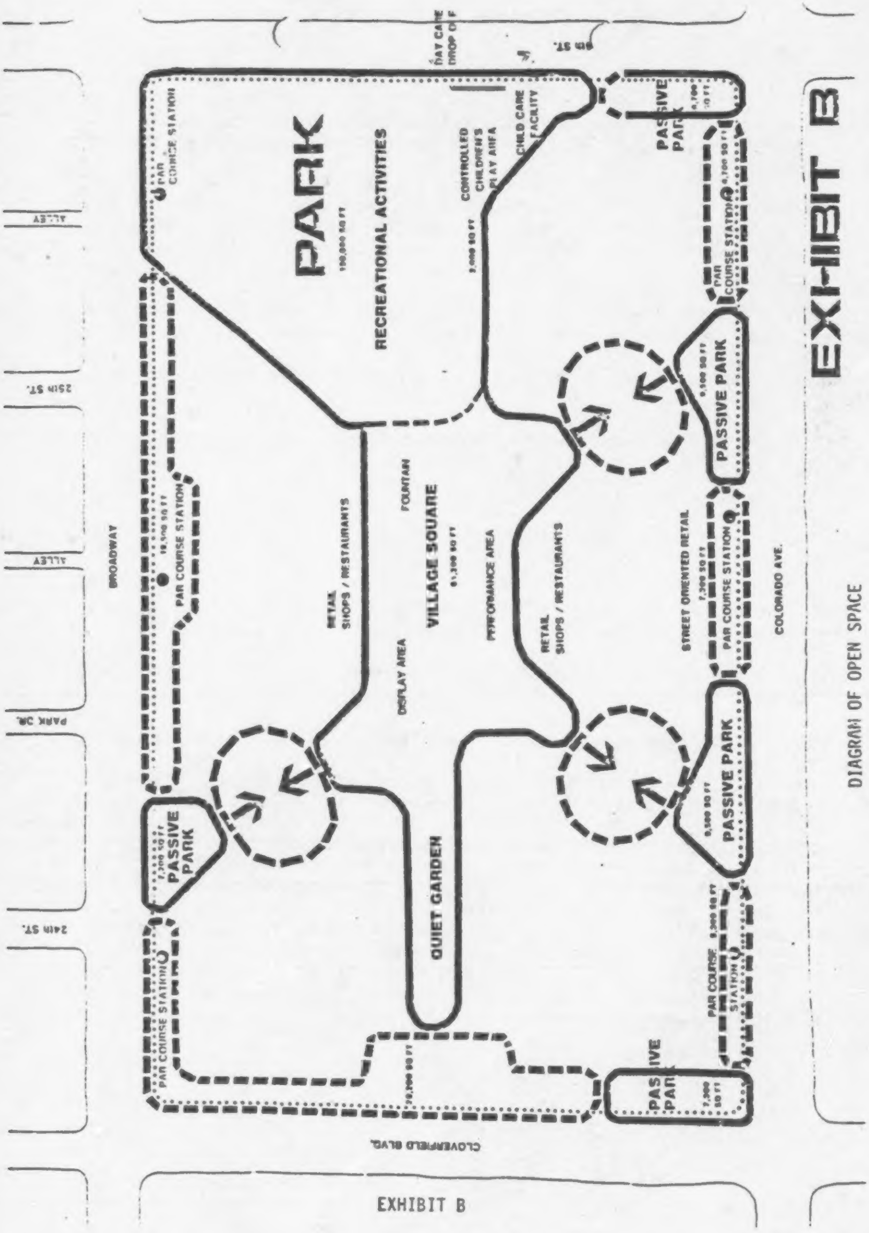


EXHIBIT B
DIAGRAM OF OPEN SPACE
PARK
RECREATIONAL ACTIVITIES
PAR COURSE STATION
CONTROLLED CHILDREN'S PLAY AREA
CHILD CARE FACILITY
DAY CARE DROP OFF
26th ST.
PASSIVE PARK
VILLAGE SQUARE
FOUNTAIN
RETAIL SHOPS / RESTAURANTS
DISPLAY AREA
PERFORMANCE AREA
STREET ORIENTED RETAIL
QUIET GARDEN
BROADWAY
ALLEY
25th ST.
PARK DR.
24th ST.
COLORADO AVE.
CLOVERFIELD BLVD.
EXHIBIT B

REQUIREMENTS OF GENERAL SERVICES DEPARTMENT

PHASE I

1. Upgrade traffic signals on Cloverfield at Broadway and Colorado. This work includes new controllers, pedestrian signals and new crosswalks. (Estimated cost $30,000.00.)

2. Participate in the widening of Cloverfield and associated traffic signal work between Broadway and Santa Monica Boulevard. (Estimated cost $40,000.00 or twenty-five percent (25%) of the total actual cost of the work, whichever is less.)

3. Install inter-connect equipment for the traffic signals on each of the frontages being developed in Phase I. (Estimated cost $16,000.00.)

4. Street lighting shall be installed on the street frontage bordering Phase I.

5. Fifty percent (50%) of the cost of resurfacing Colorado between 26th Street and Cloverfield with one inch (1") A.C. paving.

PHASE II

1. Widen Broadway four feet (4') to facilitate two-way left turn lane for traffic entering and exiting the Project. (Estimated cost $50,000.00.)

2. Install traffic signal inter-connect equipment on remaining frontages. (Estimated cost $20,000.00.)

3. Install traffic signal at Broadway and Yale. (Estimated cost $56,000.00.)

4. Widen 26th Street at Broadway as may be required by General Services Department to accomodate turning lane. (Estimated cost $50,000.00.)

5. Other requirements mutually agreed upon by General Services Department and Property Owner and designed to improve traffic conditions related to the Project may be substituted for any or all of the Phase II requirements numbered 1 through 4 above so long as the total cost of such substitute requirements does not exceed the total estimated cost of the deleted requirements, as specified above and adjusted by the percentage change in the Consumer Price Index for All Urban Consumers for the Los Angeles - Long Beach - Anaheim Metropolitan Area from the effective date of this Agreement to the date upon which a contract is entered into for the substitute requirements.

Exhibit C

INITIAL STUDY
REGARDING THE DEVELOPMENT AGREEMENT BETWEEN COLORADO PLACE, LTD. AND THE CITY OF SANTA MONICA

CITY OF SANTA MONICA
SEPTEMBER 1981

I. INTRODUCTION.

This is an Initial Study in compliance with the California Environmental Quality Act to determine whether an Environmental Impact Report is necessary in connection with the proposed development agreement between Colorado Place, Ltd., and the City of Santa Monica.

II. BACKGROUND.

Colorado Place, Ltd., has plans to develop the 15 acre site bounded by Broadway on the north, 26th Street on the east, Colorado Avenue on the south, and Cloverfield Boulevard on the west. The proposed projects consisted of two phases, three commercial office buildings in the first phase and two commercial office buildings and a hotel in the second phase.

In April, 1981, Colorado Place, Ltd., commenced excavation of the site in preparation for the construction of Phase I.

On April 23, 1981, the City of Santa Monica adopted an Emergency Building Moratorium. A stop work order was issued for the excavation.

In order to proceed with the project, Colorado Place, Ltd., has negotiated a development agreement with the City of Santa Monica. A copy of the proposed development agreement is attached hereto and incorporated by reference.

III. STATEMENT OF PURPOSE.

The purposes of an Initial Study are to:

1. Identify environmental impacts.

2. Allow modification of a project, mitigating adverse environmental impacts so that an EIR need not be prepared.

3. Focus an EIR, if one is required, on potentially significant environmental effects.

4. Facilitate environmental assessment early in the design of a project.

5. Provide documentation of a factual basis for the finding in a Negative Declaration that a project will not have a significant effect on the environment.

6. Eliminate unnecessary EIRs.

IV. SCOPE OF INITIAL STUDY.

The initial study focuses on the proposed development contemplated by the development agreement.

V. DESCRIPTION OF PROPOSED ACTION.

The development agreement is for a two phased development to include office, retail, hotel, and related commercial uses not to exceed 900,000 square feet of usable area on the property commonly known as Colorado Place, a 15 acre site bounded by Broadway on the north, 26th Street on the east, Colorado Avenue, on the south, and Cloverfield Boulevard on the West. The hotel, if developed, will be for 250-350 rooms. No more than 5 structures will be built on the site. Over 50% of the site will be open space.

VI. ENVIRONMENTAL SETTING.

The proposed project site is located in the eastern portion of the City of Santa Monica. The current zoning of the property is M-2. The project is sited on what was the City of Beverly Hills landfill site in the 1920s. Excavation to approximately 45 feet below grade will be required to remove the fill.

Half of the project site is currently vacant, being used as a place for the parking (and abandonment of automobiles). The remaining portion of the site is development with buildings used for industrial purposes. Because of the condition of the site, the buildings are experiencing a number of structural problems.

The condition of the site has inhibited development. A number of previous development proposals were unsuccessful because of the extensive excavation required to prepare the site for development.

The map attached as Exhibit B shows the Land uses surrounding the site.

VI. IMPACTS OF PROPOSED ACTION.

A checklist assessing the potential environmental impacts is included as Exhibit C.

Each of the potentially significant effects will be mitigated and will not have an adverse effect on the environment as discussed below:

Disruptions, displacements, compaction or overcrowding of the soil. The project will require significant excavation of the site. The excavation is necessary to protect the public health, safety, and welfare of the community. The continuation of the landfill presents serious problems.

Exposure of people or property to geological hazards such as earthquakes, landslides, mudslides, ground failure, or similar hazards. The City's building and safety code will mitigate any potentially adverse impact in this area.

Substantial air emissions or deterioration of ambient air quality. The traffic and emission abatement program required to be implemented by the developer will mitigate adverse impacts in this area.

Changes in absorption rates, drainage patterns, or the rate of amount of surface runoff. The City's building and safety code will mitigate any potentially adverse impact in this area.

Introduction of new species of plants into an area, or in a barrier to the normal replenishment of existing species. The site does not contain any tree or plants on the site. The project will be extensively landscaped which will add plant life to the area.

Deterioration to existing fish or wildlife habitat. The extensive landscaping may create a new habitat for for wildlife. The site is currently not a known habitat for any wildlife.

Light and Glare. Development of the site may increase light and glare from the building. The proposed buildings are designed to avoid any adverse effect of light or glare.

Substantial alteration of present or planned land use of the area. The project will change for the better the present use of the site. Other land use measures of the City will ensure that the project does not adversely effect the present or planned land use of surrounding areas.

Increse in the rate of use of any natural resources. The project will use add to water usage and will use solar panels for domestic water heating. Neither use will present any adverse effect on the environment.

Substantial depletion of any non-renewable resource. Methane gas on the site will be eliminated by the excavation.

EIA 705

CITY OF SANTA MONICA

NEGATIVE DECLARATION

An application for a Negative Declaration has been filed by Colorado Place, Ltd., a California limited partnership, on September 4, 1981, to carry out the following project: Ordinance approving a Development Agreement for a two phased development to include office,. retail, hotel, and related commercial uses not to exceed 900,000 square feet of usable area on the property commonly known as Colorado Place, a 15 acre site bounded by Broadway on the north, 26th Street on the east, Colorado Avenue, on the south, and Cloverfield Boulevard on the West.

The application has been reviewed by the Environmental Review Committee pursuant to direction of the City Council and in accordance with procedures established by Resolution Number 4351 (CCS). The Environmental Review Committee finds:

1. The proposed activity does constitute a project within the meaning of the California Environmental Quality Act of 1970.

2. The proposed activity is not exempt from the provisions of such act by reason of being a ministerial, categorically exempt or emergency activity.

3. The proposed activity does not appear to have a substantial adverse effect upon the environment.

4. The following measures to be provided by the applicant, are included as conditions of the development and will mitigate any potentially significant effects:

    a. Provision of 100 units of low and moderate income housing for at least a 40 year period, which recognizes the current shortage of such housing in the City and will minimize any adverse impact on the availability of such housing by virtue of the development.

b. Over 50% of the site (approximately 7.66 acres) for open space, including a 3.44 acre public park, a 1.86 acre public village square and quiet garden, .94 acre passive parks, and 1.52 acre area for jogging and other public uses. The open space will significantly increase the open space available to the public in the vicinity of the project.

c. Provision of a 2,000 square feet day care center in the project.

d. Preparation of a traffic and emission abatement program for use by tenants of the project which will include staggered hours among tenants, carpooling and vanpooling opportunities, reduced parking rates for carpools and vanpools, use of and incentives for public transit facilities, and bicycle parking.

e. Provision of energy conservation measures which will result in energy optimization and will prevent unnecessary energy consumption.

f. Design and promotion of affirmative action and job training programs that address the needs of neighborhoods surrounding the project.

g. Payment of an Arts and Social Service Fee.

h. Payment for numerous street and traffic improvement measures.

i. Minimization of impact on fire, police, and other public services by revenues generated from the project from property taxes, sales taxes, use taxes and other taxes.

5. No proper purpose would be served by the preparation of an Environmental Impact Report where, as here, any potentially significant effects on the environment will be reduced or eliminated by the conditions of development, which conditions are described above and

more specifically set forth in that certain Development Agreement Between Colorado Place, Ltd., and City of Santa Monica.

The Environmental Review Committee has therefore determined that the proposed project does not have a significant effect on the environment and that an Environmental Impact Report is not required.

DATED: September 10, 1981

ENVIRONMENTAL IMPACT REVIEW
COMMITTEE OF THE CITY OF
SANTA MONICA

CITY ENGINEER

PLANNING DIRECTOR

Risk of explosion or the release of hazardous substance. Removal of the landfill may risk explosion of methane gas. The City's building and safety code will minimize this risk.

Alter the location, distribution, density, or growth rate of human population. The housing required to be provided by the developer mitigates any adverse effect. In addition, major portions of the project are to be occupied by businesses currently in the area.

Affect Existing Housing or Create a Demand for Additional Housing. Any adverse effect is mitigated by the requirement of 100 housing units to be provided by the developer. No existing housing will be removed.

Generation of substantial additional vehicular movement, effects on existing parking facilities or demand or new parking, alteration to present patterns of circulation, and increase in traffic. The traffic and emission abatement program required by the developer along with extensive street and traffic improvements will mitigate any potentially significant effects.

Governmental Services. The revenue generated from the project and the on-site public park and day care center will mitigate any potentially significant effects on government services. The project will include private security and has been designed to include fire protection measures.

Energy and Utilities. A detailed energy conservation program will mitigate any significant effect in this area.

Human Health. No significant effects on human health are anticipated. The site is located in close proximity to two hospital to provide emergency care to anyone injured on the site.

Recreation. The project will increase recreational opportunities in the area.

Cumulative Impact. The mitigation measures, along with other landuse measures of the City, will avoid any adverse cumulative impacts from this project.

VII. CONCLUSION AND RECOMMENDATION.

It is the conclusion of staff that the proposed development agreement will have no significant effect on the environment, or that any potentially significant effects are reduced or eliminated by mitigation measures. It is respectfully recommended that a negative declaration be prepared.

DEVELOPMENT AGREEMENT

EXHIBIT A

TABLE OF CONTENTS

Page

1. Definitions.. 2
2. Exhibits... 3
3. Description of Real Property................................. 3
4. Interest of Property Owner................................... 3
5. Assignment... 4
6. Binding Effect of Agreement.................................. 4
7. Relationship of Parties...................................... 4
8. City's Approval of Project................................... 4
9. Changes in Project... 5
10. Time for Construction and Completion of Project............. 5
    (a) Beginning Construction.................................. 5
    (b) Completion of Project................................... 5
    (c) Certificates of Occupancy............................... 6
11. Hold Harmless... 6
12. Insurance... 7
13. Specific Restrictions on Development of Real Property....... 7
    (a) Maximum Floor Area...................................... 7
    (b) Maximum Height.. 8

Page

14. Improvements, Facilities and Services........................ 8
    (a) Housing.. 8
    (b) Open Space... 13
    (c) Day-Care Center.................................... 15
    (d) Traffic and Emission Abatement..................... 16
    (e) Energy Conservation................................ 17
    (f) Affirmative Action and Job Training................ 19
    (g) Accessibility...................................... 19
    (h) Hotel.. 20
    (i) Arts and Social Service Fee for Phase I............ 20
    (j) Arts and Social Service Fee for Phase II........... 21
    (k) General Services Department........................ 22
14A. Alternate Improvements, Facilities and Services............ 22
    (a) Housing.. 22
    (b) Open Space... 23
    (c) Day-Care Center.................................... 23
    (d) Traffic and Emission Abatement..................... 23
    (e) Energy Conservation................................ 23
    (f) Affirmative Action and Job Training................ 23
    (g) Accessibility...................................... 23
    (h) Hotel.. 23
    (i) Arts and Social Service Fee for Phase I............ 23
    (j) Arts and Social Service Fee for Phase II........... 24
    (k) General Services Department........................ 24
15. Effect of Agreement on Land Use Regulations................. 24
16. Periodic Review of Compliance with Agreement................ 25

Page

17. Amendment or Cancellation of Agreement.................... 25
18. Enforcement.. 26
19. Events of Default.. 26
20. Procedure Upon Default... 26
21. Damages Upon Termination....................................... 28
22. Attorneys' Fees and Costs...................................... 28
23. Notices.. 28
24. Rules of Construction and Miscellaneous Terms.................. 29
25. Duration of Agreement.. 30
26. Recording of Agreement... 30

DEVELOPMENT AGREEMENT

THIS AGREEMENT is entered into this ______ day of September, 19__, between Colorado Place, Ltd., a California limited partnership ("Property Owner") and the City of Santa Monica, a Charter City ("City") organized and existing under the laws of the State of California.

RECITALS

This Agreement is predicated upon the following facts:

1. The City intends to enter into binding development agreements with persons having legal or equitable interests in real property for the development of such property, pursuant to the City's Charter and the provisions of state law.

2. Property Owner has requested the City to consider entering into a development agreement and proceedings have been undertaken in accordance with the City's rules and regulations;

3. The City Council of the City has found that the Development Agreement is consistent with the general plan and that the Project complies with all applicable rules, regulations and official policies governing permitted uses of the Real Property, density, conceptual design and improvement except with respect to building height and certain uses planned for the Project which height variances and uses are approved pursuant to paragraph 8 hereof;

NOW THEREFORE, the parties agree:

1. Definitions. In this Agreement, unless the context otherwise requires:

(a) "City" is the City of Santa Monica.

(b) "Project" is the development approved by the City and commonly known as Colorado Place, consisting of Two Phases. Phase I is to consist of approximately 450,000 square feet of usable area and is to be located on that portion of the Real Property designated as the WBA Land on Exhibit A. Phase II is to consist of approximately 450,000 square feet of usable area and is to be located on that portion of the Real Property designated as the Kranz Land on Exhibit A.

(c) "Property Owner" means the limited partnership referred to in paragraph 4 which has legal and equitable interests in the Real Property as described in paragraph 3 and includes the Property Owner's successors in interest;

(d) "Real Property" is the real property referred to in paragraph 3.

(e) "Usable area" means area above grade (excluding parking structure) measured from the finished surface of the office or occupied side of corridor and other permanent walls to the inside finished surface of the dominant portion of the permanent outer building walls, with no deductions for columns and projections necessary to the building.

2. Exhibits. The following documents are referred to in this Agreement, attached and made a part by this reference:

Exhibit Designation	Description	Referred to In Paragraph
A	Real Property	3,4
B	Diagram of Open Space	14(b),14(c),14A(b)
C	Requirements of General Services Department	14(k),14A(k)

3. Description of Real Property. The Real Property which is the subject of this Agreement is described in Exhibit A, and consists of the WBA Land and the Kranz Land as designated thereon.

4. Interest of Property Owner. Property Owner represents that it has legal and equitable interests in the Real Property and that all other persons holding legal or equitable interests in the Real Property are to be bound by this Agreement. The foregoing notwithstanding, it is understood and agreed that title to the Kranz Land as described on Exhibit A is to be held in trust as provided for in the Agreement of Limited Partnership until the General Partner of Property Owner has satisfied the conditions of release contained in the Trust Agreement. In the event that the conditions of release under the Trust Agreement have not been satisfied and the Kranz Land has not been released to Property Owner by August 1, 1985, and Phase I only has been completed, paragraph 14 of this Agreement (entitled "Improvements, Facilities and Services") shall be modified as indicated in paragraph 14A of this Agreement (entitled "Alternate Improvements Facilities and Services"). In

addition, all other rights and obligations of Property Owner and City with respect to the Kranz Land and the development of Phase II only may, upon the occurance of the above-described event, be terminated by either party hereto pursuant to the provisions of this Agreement.

5. Assignment. This Agreement shall not be severable from Property Owner's interest in the Project. Any transfer of the Project shall automatically operate to transfer the benefits and burdens of this Agreement. Property Owner may freely sell, transfer, exchange or otherwise dispose of its interest in the Project without the consent of the City.

6. Binding Effect of Agreement. The burdens of this Agrement bind and the benefits of the Agreement inure to the successors in interest to the parties hereof.

7. Relationship of Parties. It is understood that the contractual relationship between the City and Property Owner is such that the Property Owner is an independent contractor and not the agent of the City.

8. City's Approval of Project. By the adoption hereof, the City approves commercial office building, retail, hotel, and related commercial uses, for the Real Property. Specifically, the Project is approved for all uses identified in Santa Monica Municipal Code Section 9121A (whether such uses are permitted or excluded under such section) with the exception that all uses specified in subparagraph 4a through x of such section shall remain prohibited uses. Height variances are approved for the Project in accordance

with the provisions of paragraph 13 hereof. The development plan provides for the development of the Real Property with not more than 900,000 square feet of usable area.

9. Changes in Project. No material change, modification, revision or alteration may be made in those portions of the development plan which are incorporated into this Agreement under paragraph 13 without review and approval by those agencies of the City approving the plan in the first instance. A material change, modification, revision or alteration in those portions of the development plan which are incorporated into this Agreement under paragraph 13 will not be effective until the parties amend this Agreement to incorporate it.

10. Time for Construction and Completion of Project.

(a) Beginning Construction. Property Owner agrees to begin construction of Phase I of the Project within one hundred twenty (120) days after the execution of this Agreement and to begin construction of Phase II of the project by August 1, 1985, provided that all necessary permits, approvals and financing are obtained for each Phase respectively.

(b) Completion of Project. Property Owner agrees to diligently prosecute to completion the construction of the Project and to complete construction within eight (8) years after the actual construction begins subject to delays reasonably beyond Property Owner's control and the contingencies recited in paragraph 4 hereof.

(c) Certificates of Occupancy. Promptly after completion of each Phase of the Project, the City shall provide the Property Owner with a certificate of occupancy therefor. Upon completion of a portion of any Phase in compliance with building and safety regulations and upon Property Owner's request, City will issue a certificate of occupancy for the portion so completed.

11. Hold Harmless. Property Owner agrees to and shall hold the City, its officers, agents, employees and other representatives harmless from liability for damage or claims for damage for personal injury including death and claims for property damage which may arise from the direct or indirect operations of the Property Owner or those of its contractor, subcontractor, agent, employee or other person acting on its behalf which relate to the Project, including the maintenance and operation of the open space and housing provided for hereunder. Property Owner agrees to and shall defend the City and its officers, agents, employees and representatives from actions for damages as described above caused or alleged to have been caused by reason of Property Owner's activities in connection with the Project.

This hold harmless agreement applies to all damages and claims for damages suffered or alleged to have been suffered by reason of the operations referred to in this paragraph, regardless of whether or not the City prepared, supplied, or approved plans or specifications or both for the Project.

12. Insurance. Property Owner shall maintain public liability insurance throughout the term of this Agreement in amounts reasonably calculated by Property Owner to be sufficient for the size of the Project. The insurance shall extend to the City, its elective and appointive boards, commissions, officers, agents, employees and representatives and to Property Owner and each contractor and subcontractor performing work on the Project. Property Owner shall furnish to City prior to the commencement of construction of the Project satisfactory evidence that such insurance is in force. The insurance shall provide coverage for claims and damage arising out of the operations referred to in paragraph 11 of this Agreement.

13. Specific Restrictions on Development of Real Property. In addition to the zoning classifications and uses permitted under paragraph 8 hereof, the following specific restrictions shall also govern the use of the Real Property:

(a) Maximum Floor Area. Maximum floor area of the Project shall not exceed 900,000 square feet of usable area above grade (excluding parking structure), defined as the area measured from the finished surface of the office or occupied side of corridor and other permanent walls to the inside finished surface of the dominant portion of the permanent outer building walls, with no deductions for columns and projections necessary to the building. Areas set aside for the day care center referred to in paragraph 14 (c) shall be specifically excluded.

(b) Maximum Height. Under this Agreement building height shall be measured from the top of the first floor slab to the top of the roof slab.

(1) The average building height for all buildings in Phase I of the Project shall not exceed forty-five (45) feet.

(2) The average building height for buildings in Phase II which are designated primarily for office uses shall not exceed sixty-five (65) feet. The average building height for buildings in Phase II which are designated for hotel uses shall not exceed ninety-six (96) feet. Average building height shall be determined as the sum total of unit building heights divided by the sum total of first floor gross building areas (footprint). A unit building height shall be the height of each square foot of roof area directly over a square foot of building area, measured vertically from the top of first floor slab to the top of roof slab.

14. Improvements, Facilities and Services. Property Owner agrees to provide the following improvements, facilities and services:

(a) Housing. In light of the City's current shortage of housing that is affordable to persons of low and moderate incomes, and as a means of addressing any increase in the demand for such housing associated with the development of the Project, Property Owner agrees to provide one hundred (100) rental units in new or existing buildings in the City of Santa Monica subject to the terms and conditions of this paragraph 14(a). For purposes of this paragraph, the term "existing buildings" does not include any building that any building that contains any controlled rental unit as defined in Section 1803(c) of the Santa Monica City Charter except that the term "existing buildings" does include a building for which a removal permit has been granted pursuant to Section 1803(t) of the Santa Monica City Charter.

(l) Affordability. The housing units provided hereunder shall be made available to a mix of persons and families of very low, low, median and moderate incomes. The mix specified herein shall apply to the entire housing requirement hereunder and not to any group or scheduled portion of units.

(i) At least 25% of the units shall be affordable and rented to persons and families with annual income of less than 50% of median income.

(ii) At least 25% of the units shall be affordable and rented to persons and families with annual incomes of between 51% and 80% of median income.

(iii) At least 25% of the units shall be affordable and rented to persons and families with annual incomes of between 81% and 100% of the median income.

(iv) The remainder of the units shall be affordable and rented to persons and families with annual incomes of between 100% and 120% of median income.

Median income means the median income for the County of Los Angeles as determined by the United States Department of Housing and Urban Development.

A housing unit provided hereunder is affordable if the annual housing cost does not exceed 25% of annual income.

After initial occupancy, Property Owner is not in breach of this condition if the income of a person or family increases during the period of occupancy.

(2) Distribution of Units. The housing provided by Property Owner shall include, but not be limited to, housing for handicapped persons, senior citizens, and families with children. The housing shall consist of the following mix of units by bedroom size, which mix shall apply to the entire housing requirement hereunder and not to any group or scheduled portion of units.

(i) No more than 50% of units shall be one bedroom units.

(ii) At least 25% of the units shall be two bedroom units.

(iii) At least 15% of units shall be three or more bedroom units.

(3) Priority. The housing shall be made available to eligible persons and families in the following order of priority: first, employees of the Project who reside in the City; second, employees of the Project who

reside outside the City; third, non-employees of the Project who reside in the City; and fourth, non-employees of the Project who reside outside the City.

(4) Verification of Eligibility. Property Owner shall maintain such records as are required by the City to verify eligibility for housing provided hereunder. The records shall be open for inspection and copying by City during normal business hours of Property Owner. Property Owner shall require as a part of such records a statement from each employee of the Project who applies to rent the housing provided hereunder certifying that said housing is not being provided to that employee as a part of that employee's compensation or wages from his or her employer.

(5) Time. Property Owner shall provide the units on the following schedule:

(i) Fifteen (15) units to be available for occupancy within eighteen (18) months of the date of issuance of the first certificate of occupancy for Phase I of the Project.

(ii) Thirty-five (35) units to be available for occupancy within thirty-six (36) months of the date of issuance of the first certificate of occupancy for Phase I of the Project.

(iii) Fifteen (15) units to be available for occupancy within eighteen (18) months of the date of issuance of the first certificate of occupancy for Phase II of the Project.

(iv) Thirty-five (35) units to be available for occupancy within thirty-six (36) months of the date of issuance of the first certificate of occupancy for Phase II.

(6) Duration of Housing Requirement. The housing provided pursuant to subparagraphs (5)(i) and (5)(ii) of this paragraph 14(a) shall be provided for 40 years or for the life of Phase I of the Project, whichever period is greater. The housing provided pursuant to subparagraphs (5)(iii) and (5)(iv) of this paragraph 14(a) shall be provided for 40 years or for the life of Phase II of the Project, whichever period is greater.

(7) City Cooperation. The City shall cooperate with Property Owner in expediting the issuance of permits necessary in connection with the housing required hereunder. City shall provide such cooperation as it deems appropriate to assist Property Owner in securing favorable financing for the housing required hereunder.

(8) Failure to Provide Housing. In the event Property Owner fails to provide the housing units specified under this paragraph 14(a), the City, at its election, shall be entitled to one of the following remedies:

(i) In an action for specific performance, the number of units that Property Owner shall be required to provide hereunder may be increased by the sum of the following: 1) ten percent (10%) of the number of units which Property Owner is found to have failed to provide, rounded up to the next highest whole unit and 2) two percent (2%) of the number of units which Property Owner is found to have failed to provide, multiplied by the number of calendar months for which Property Owner is found to have failed to provide said units based on the schedule in paragraph 14(a)(5) hereof, rounded up or down to the nearest whole unit.

[illegible] In an action for damages, t[illegible]nt of recoverable damages may be calculated by determining the costs that the City would be required to incur if it were to provide the same number of units that Property Owner is found to have failed to provide.

(b) Open Space. As a means of improving the supply of public open space available to persons living near or working in the Project Property Owner shall provide open space as described herein on the terms and conditions set forth below:

(1) The development area will for open space, landscaped areas, park and plaza uses as more particularly described in Exhibit B attached hereto and made a part hereof. Property Owner shall be responsible for the cost of constructing, maintaining and operating such open space area, including the cost of planning and providing public events, displays, performances and the like. During hours that plaza and passive park areas are generally open to the public, no person may be excluded from plaza and passive park areas except to the extent that the City is permitted by law to exclude a person from a City-owned park.

(2) The area designated in Exhibit B hereto as "Park" shall be designed and used for public recreational uses. Prior to the issuance of a building permit for Phase II of the Project, Property Owner shall submit to and receive the approval of the City for the design of the Park area. The Park shall consist of 150,000 square feet (approximately 3.44 acres) of area unless in reviewing the plans for Phase II the City, at its discretion, determines that some lesser area, but not less than 133,000 square feet (approximately 3.06 acres), is appropriate to enhance the design of the Project consistent with the purposes of this Agreement. The Park shall include both passive and active recreation areas,

and shall include at least one area or facility for organized athletic sport. Property owner shall execute such documents as are necessary to insure that the Park area is made available for public recreation uses as herein described until such time as the buildings constituting the Project are demolished, subject to the following terms and conditions:

(i) Park is open and accessible to the public twenty-four (24) hours per day, seven days per week, subject only to seasonal or periodic closings of areas for maintenance, repair or the like.

(ii) No person may be excluded from the Park by Property Owner except to the extent that the City is permitted by law to exclude a person from a City-owned park.

(iii) Park may be used by the public to the same extent as a public park of the City with similar facilities, including as a public place for free speech activities, and subject to reasonable regulation as permitted by law. Such regulations, to the extent they exceed existing City regulations concerning the use of public parks, shall be subject to reasonable approval by the City.

(iv) Property Owner shall identify to the public a representative whose responsibility it shall be to maintain communication with community groups or individuals using or interested in using the Park, including attending public meetings to discuss Park activities and programs. Property Owner, through said representative, shall make a good faith attempt to effectively respond to the recreational needs of the neighboring community.

(v) The City may schedule with Property Owner recreation programs and activities in the park at such times as do not conflict with programs or activities provided by Property Owner. In scheduling its own programs and activities, Property Owner shall ensure that sufficient times are available for programs and activities scheduled by City.

(c) Day-Care Center. A day-care center consisting of approximately 2,000 square feet of indoor space plus appropriate outdoor play area, will be contained within the Project and considered as a part of the open space program as shown on Exhibit B hereto and such facility will be made available for lease to qualified licensed day-care operators at the rate of one dollar ($1.00) per year on a triple net basis (exclusive of maintenance, taxes and insurance.). The day-care center will be located in Phase I of the Project and will be made available for lease and be suitable for tenant improvements no later than the completion date of Phase I. The City shall have a right of first refusal to become lessee of the day-care center in the first instance, if the city can demonstrate to Property Owner's reasonable satisfaction that it meets the qualifications required of prospective lessees. Property Owner shall have the right to terminate the lease upon the failure of the lessee to meet the standards of operation specified in the lease. The lessee shall have no right to sublet or assign the day-care center space. Property Owner shall submit its proposed day-care center lease to the City Attorney for approval as to form, required qualifications of prospective operators and rates to be charged prior to the completion of Phase I.

Property Owner shall provide the following improvements to the day-care center: finished lavatories meeting state standards for day-care centers; finished inside walls, taped, spackled and painted; vinyl tile floor and wall base; acoustic tile ceiling; fluorescent lighting; storefront and entrance door; primary distribution of HVAC to the space; primary distribution of electric service to the space; primary and secondary distribution of sprinklers as required by fire department regulations for unoccupied space; building standard window blinds. In addition, the lease shall include as part of the improvements the provision by Property Owner of outdoor play equipment plus a tenant allowance of not more than five thousand dollars ($5,000.00) for necessary furnishings and equipment for the indoor area.

Property Owner shall continue to provide space for the above-described day-care center so long as a qualified lessee operates the center under the terms of the approved lease. If the space is not operated as a day-care center for more than two (2) consecutive months then the City shall enter into a lease to operate the day-care center, which lease shall be Property Owner's day-care center lease as approved in accordance with this paragraph 14(c). If the space is not operated as a day-care center for more than six (6) consecutive months for the sole reason that no qualified operator seeks to operate it then Property Owner may release the space for other purposes. The time periods specified in this paragraph 14(c) shall commence and run only upon written notice by Property Owner to City of such commencement.

(d) Traffic and Emission Abatement. Property Owner will designate a representative whose responsibility it will be to prepare and submit to the City for approval prior to the completion of Phase I a program designed to actively encourage and promote among the tenants of the Project the following traffic and emission abatement measures:

(1) Staggered hours or "flex-time" amongst different tenants and/or within divisions or departments of larger tenants.

(2) Compilation and distribution of ride-share lists and computer scheduling of car-pools and van-pools for all employees of all tenants.

(3) Reduced parking rates for car-pools and van-pools.

(4) Use of public transit facilities, including actively working with local transit companies to improve service to and from the Project and implementing public transit incentives such as bus passes for employees.

(5) Readily available bicycle parking areas.

(6) Such other measures that Property Owner determines will reduce traffic impact of the Project.

These traffic abatement measures will be initiated no later than upon occupancy of the first 50% of Phase I of the Project.

(e) Energy Conservation. The Project will comply with all provisions of California Title 24 Energy Regulations, and will include as a minimum the following features which meet or exceed the City's Proposed Energy Code:

(1) Energy Management System. All air conditioning and other mechanical equipment and motors will be started and stopped from the system console and water and air temperatures can be remotely reset. The foregoing, in conjunction with remote sensing of outside and inside conditions, will

permit system operation refinements resulting in energy optimization, and will prevent unncessary energy consumption during business and non-business hours. This system will also be used to control the use of lighting.

(2) Air Conditioning. An economizer or "free cooling" cycle will be used which will enable the use of outdoor air rather than mechanically refrigerated air whenever outside temperature permits. Variable volume air distribution systems will allow air supply quantities to be reduced as cooling load decrease resulting in reduced fan power consumption at reduced loads. Air supply to periodically unoccupied areas, such as conference rooms, can be minimized. Low pressure air distribution systems will be utilized to minimize fan horsepower. Cold plenum temperature at air conditioning units will be reset automatically to a higher temperature (when air conditions warrant) with resultant energy savings.

(3) Lighting. High efficiency fluorescent lamp/ballast systems will minimize energy consumption. Maximum provisions for local light switching will be provided to permit use of lighting only when space is occupied. Photo cell control of lighting in areas where natural illumination could suffice will be provided. Exterior and certain operational lighting will be controlled from the energy management system to optimize operation and minimize energy consumption. Where decor or function dictate the use of incandescent or tungsten halide lighting, extensive dimming equipment will be provided to optimize operation and increase lamp life.

(4) Solar Heating. Solar panels, roof mounted, will provide domestic water heating.

(5) Operable Windows. Operable windows will be provided in atrium areas. Sliding glass doors will open to outside terraces.

(6) Other Energy Considerations. High efficiency roof and wall insulation as well as heat absorbing solar grey glass will be utilized to reduce cooling and heating loads. All air supply ducts will be insulated to reduce energy losses to non-conditioned spaces. Hot water piping and storage tanks will be fully insulated. Water-saving flush valves will be provided for toilet fixtures. Sun shading of windows will be incorporated where appropriate to further reduce air conditioning requirements.

(f) Affirmative Action and Job Training. Property Owner will designate a representative whose responsibility it will be to identify and target those areas suitable for affirmative action and to develop and submit to the City for approval prior to the completion of Phase I a program designated to effectively address problem areas. Property Owner's representative will, in consultation with appropriate neighborhood organizations, design and actively promote among the tenants of the project job training programs that address the needs of the neighborhoods surrounding the Project.

(g) Accessibility. The Project, including the Park and all open space, shall be accessible to handicapped persons.

(h) Hotel. Unless Property Owner is unable to secure commercially reasonable financing, Property Owner shall include in Phase II of the Project a hotel of not less than two hundred fifty (250) guest rooms. Property Owner shall use its best efforts to secure such commercially reasonable financing for said hotel. Property Owner shall promptly notify City if Property Owner determines that it is unlikely that such financing can be secured, in which case City shall cooperate with and assist Property Owner for a period of six months from the date of said notice, or for such other period as is mutually agreed upon, in securing such financing.

(i) Arts and Social Service Fee for Phase I. Property Owner shall pay to City an Arts and Social Service Fee equal to one and one-half percent (1.5%) of the following: the sum of the cost to Property Owner of the WBA Land and the cost of construction of Phase I, exclusive of the cost of construction interest and other financing fees and the cost of construction of the day-care center. At the election of Property Owner, which election shall be made in writing to City prior to the issuance of the final certificate of occupancy for Phase I, Property Owner may pay said Fee either 1) in full within thirty (30) days of the issuance of the final certificate of occupancy for Phase I, or 2) in twenty (20) annual installments computed as follows: the first installment shall be an amount equal to one-twentieth of the total Fee as above calculated less Property Owner's actual costs of maintaining and operating the open space provided in Phase I of the Project; the first installment shall be due and payable on the first July 1 following the issuance of the last certificate of occupancy for Phase I; the costs of maintaining and operating the open space shall be computed from the time of completion of the open space until said first July 1 date. Each subsequent annual payment shall be due and payable on the next following July 1 in an amount calculated as follows: one-twentieth of the total Fee, increased by a percentage equal to the percentage increase in the Consumer Price Index for All Urban Consumers for the Los Angeles - Long Beach - Anaheim Metropolitan Area as issued by the United States Department of Labor from July 1 of the previous year to July 1 of the year in which the installment is due, less Property Owner's actual costs of maintaining and operating the open space from the previous July 1 to July 1 of the year in which the installment is due.

(j) Arts and Social Services Fee for Phase II. Property Owner shall pay to City an Arts and Social Service Fee equal to one and one-half percent (1.5%) of the following: the sum of 1) the cost to Property Owner of the Kranz Land, reduced proportionately by the percentage of the Kranz Land which is used for the Park described in paragraph 14 (b)(2) of this Agreement, and 2) the cost of construction of Phase II exclusive of the cost of construction interest and other financing fees. At the election of Property Owner, which election shall be made in writing to City prior to the issuance of the final certificate of occupancy for Phase II, Property Owner may pay said Fee either 1) in full within thirty (30) days of the issuance of the final certificate of occupancy for Phase II, or 2) in twenty (20) annual installments beginning the first July 1 following the issuance of the last certificate of occupancy for Phase II. If Property Owner elects to pay the Fee in annual installments then paragraph 14(i) of this Agreement shall be modified as herein provided to combine the Phase I Fee and Phase II Fee as follows: the total annual installment shall be the sum of the Phase I annual installment and the Phase II annual installment. Each total annual installment shall be due and payable on July 1 of each year as adjusted by the Consumer Price Index in paragraph 14(i) hereof and shall be offset by the total costs of operating and maintaining the open space areas of the entire Project for the period from July 1 of the previous year to July 1 of the year in which the installment is due.

(k) General Services Department. Property Owner shall comply with the requirements of the City Department of General Services which requirements are enumerated on Exhibit C attached hereto and made a part hereof. Property Owner shall not be subject to any further requirements of the City General Services Department in addition to those contained in Exhibit C hereto and any others agreed to prior to the effective date of this Agreement in connection with the construction of the Project.

14A. Alternate Improvements, Facilities and Services. The effectiveness of this paragraph 14A is contingent upon the occurance of the event described in paragraph 4 of this Agreement. If said event does not occur as so described, this paragraph 14A shall have no force or effect whatsoever. Upon the occurance of said event this paragraph 14A shall be implemented to modify paragraph 14 of this Agreement only to the extent indicated herein. All provisions of paragraph 14 not inconsistent with this paragraph 14A shall remain in full force and effect.

(a) Housing. Property owner shall be required to provide fifty (50) units of low-to-moderate income housing in connection with the development of Phase I of the Project under the terms specified in paragraph

14(a) hereof. No additional housing will be required in connection with the Project. The time schedule shall be the same as that described in paragraphs 14(a)(5)(i) and 14(a)(5)(ii) hereof.

(b) Open Space. Property Owner's obligation to provide open space shall be limited to those open space areas constructed as a part of Phase I of the Project. Property Owner shall have no obligation to create or operate the area designated as Park in Exhibit B hereto.

(c) Day-Care Center. This requirement shall remain as described in paragraph 14(c) hereof.

(d) Traffic and Emission Abatement. This requirement shall remain as described in paragraph 14 (d) hereof.

(e) Energy Conservation. This paragraph shall remain as described in paragraph 14 (e) hereof.

(f) Affirmative Action and Job Training. This requirement shall remain the same as described in paragraph 14 (f) hereof.

(g) Accessibility. This requirement shall remain as described in paragrah 14 (g) hereof.

(h) Hotel. Delete paragraph 14 (h) hereof.

(i) Arts and Social Service Fee for Phase I. This requirement shall remain as described in paragraph 14 (i) hereof.

(j) Arts and Social Service Fee for Phase II. Delete paragraph 14 (j) hereof.

(k) General Services Department. Delete those items in Exhibit C hereto pertaining to Phase II.

15. Effect of Agreement on Land Use Regulations. The rules, regulations and official policies governing permitted uses of the Real Property, the density of the Real Property, the design, improvement and construction standards and specifications applicable to development of Real Property, including those sections of the Santa Monica Municipal Code referred to herein, are and shall remain those rules, regulations and official policies in force at the time of the execution of this Agreement, except that all uses specified in paragraph 8 shall be permitted and height restrictions modified as delineated in paragraph 13.

This Agreement does not prevent the City in subsequent actions applicable to the Real Property from applying new rules, regulations and policies which do not conflict with those rules, regulations and policies applicable to the Real Property as set forth in this Agreement. This Agreement does not prevent the City from denying or conditionally approving any subsequent development project application on the basis of existing or new rules, regulations and policies.

Any provisions of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this Agreement, to the extent of such inconsistencies and no further, are hereby repealed or modified to that extent necessary to effect the provisions of this Agreement.

The building permit for Phase I of the Project currently being held by the Planning Department of the City shall be issued to Property Owner immediately upon enactment of this Agreement. This permit constitutes the full building permit for Phase I and shall remain effective so long as Property Owner complies with plan checks and corrections issued by the City Building Department. Architectural Review Board approval shall be required for the Phase I landscape plan only. Such approval is not a prerequisite to the issuance of the Phase I building permit, but must be secured prior to the commencement of landscape work. Phase II of the Project shall comply with all applicable City Architectural Review procedures.

16. Periodic Review of Compliance with Agreement.

(a) The City shall review this Agreement at least once every 12 month period from the date this Agreement is executed.

(b) During each periodic review by the City, the Property Owner is required to demonstrate good faith compliance with the terms of the Agreement.

17. Amendment or Cancellation of Agreement. This Agreement may be amended or cancelled in whole or in part only by mutual consent of the parties and in the manner provided for by law.

18. Enforcement. Unless amended or cancelled as provided in paragraph 17, this Agreement is enforceable by any party to it notwithstanding a change in the applicable general or specific plan, zoning, subdivision or building regulations adopted by the City which alter or amend the rules, regulations or policies governing permitted used of the land, density, design, improvement and construction standards and specifications.

In any litigation concerning this Agreement neither party hereto shall assert as a claim or defense the invalidity of this Agreement.

19. Events of Default. Property Owner is in default under this Agreement upon the happening of one or both of the following events or conditions:

(a) If a warranty, representation or statement made or furnished by Property Owner to the City is false or proves to have been false in any material respect when it was made;

(b) Property Owner has not complied with one or more of the terms or conditions of this Agreement.

20. Procedure Upon Default.

(a) Upon the occurrence of an event of default, the City may declare Property Owner to be in default and may terminate or modify this Agreement in accordance with applicable procedures. Prior to any declaration of default written notice must be given to Property Owner of the nature of such default and Property Owner shall have ninety (90) days to cure said default, unless the default is due to Property Owner's failure to provide housing as specified in paragraph 14(a) hereof, in which case the City shall have available to it those remedies described in said paragraph 14(a).

Upon the occurrence of an event of default on the part of the City, and prior to Property Owner instititing any action to enforce the Agreement, Property Owner shall give written notice to City of the nature of such default and City shall have ninety (90) days to cure said default.

(b) An express repudiation, refusal or renunciation of the contract, if the same is in writing and signed by the Property Owner, shall, at the sole election of the City, be sufficient to terminate this Agreement and a hearing on the matter shall not be required.

(c) Non-performance shall be excused when it is prevented or delayed by reason of any of the following forces reasonably beyond the control of the Property Owner:

(1) War, insurrection, riot, flood, severe weather, earthquake, fire, casualty, acts of a public enemy, governmental restriction, litigation, acts or failures to act of any governmental agency or entity;

(2) Inability to secure necessary labor, materials or tools, strikes, lockouts, delays of any contractor, subcontractor or supplier, but non-performance shall be excused for a total cumulative period of not more than six (6) months under any or all of the forces enumerated in this subparagraph 20(c)(2).

(d) All remedies at law or in equity, including specific performance, which are not otherwise provided for in this Agreement or in the City's regulations governing development agreements are available to the parties to pursue in the event there is a breach.

21. Damages Upon Termination. In no event shall Property Owner be entitled to any damages against City upon termination of this Agreement unless such termination is in breach of the Agreement. Upon any such termination of this Agreement, the parties hereto shall execute an appropriate notice of termination suitable for recording in the official records of Los Angeles County.

22. Attorneys' Fees and Costs. If legal action by either party is brought because of breach of this Agreement or to enforce a provision of this Agreement, the prevailing party is entitled to reasonable attorneys' fees and court costs.

23. Notices. All notices required or provided for under this Agreement shall be in writing and delivered in person or sent by certified mail, postage prepaid. Notice required to be given to City shall be addressed as follows:

City Attorney
City of Santa Monica
1685 Main Street
Santa Monica, California 90401

Notices as required to be given to Property Owner shall be addressed as follows:

Becket Investment Corporation
2900 31st Street
Santa Monica, California 90405
Attn: MacDonald G. Becket, Jr.

and

Thomas F. Kranz
9720 Wilshire Boulevard
Third Floor
Beverly Hills, California 90212

A party may change the address by giving notice in writing to the other party and thereafter notices shall be addressed and transmitted to the new address.

24. Rules of Construction and Miscellaneous Terms.

(a) The singular includes the plural; "shall" is mandatory, "may" is permissive.

(b) If a part of this Agreement is held to be invalid, the remainder of the Agreement is not affected.

(c) If there is more than one signer of this Agreement their obligations are joint and several.

25. Duration of Agreement. This Agreement shall expire on ________________, 19____. After expiration or full satisfaction the parties shall execute an appropriate certificate of termination which shall be recorded in the official records of Los Angeles County.

26. Recording of Agreement. The parties hereto shall cause this Agreement to be recorded in the official records of the County of Los Angeles.

IN WITNESS WHEREOF this Agreement has been executed by the parties on the day and year first above written.

Approved as to form:

City of Santa Monica

By:

Attest:

Colorado Place, Ltd., a
California limited partnership

By: Welton Becket Associates,
a California corporation,
as general partner

Acknowledgements

By:

WBA Land

The Southeast 300.00 feet, more or less, of Lot 4 of Tract No. 9774, in the City of Santa Monica, in the County of Los Angeles, State of California as per map recorded in Book 140, Page 64 of Maps, in the Office of the County Recorder of said County.

Kranz Land

The Northwest 300.00 feet, more or less, of Lot 4 of Tract No. 9774, in the City of Santa Monica, in the County of Los Angeles, State of California, as per map recorded in Book 140, Page 64 of Maps, in the Office of the County Recorder of said County.

Exhibit A

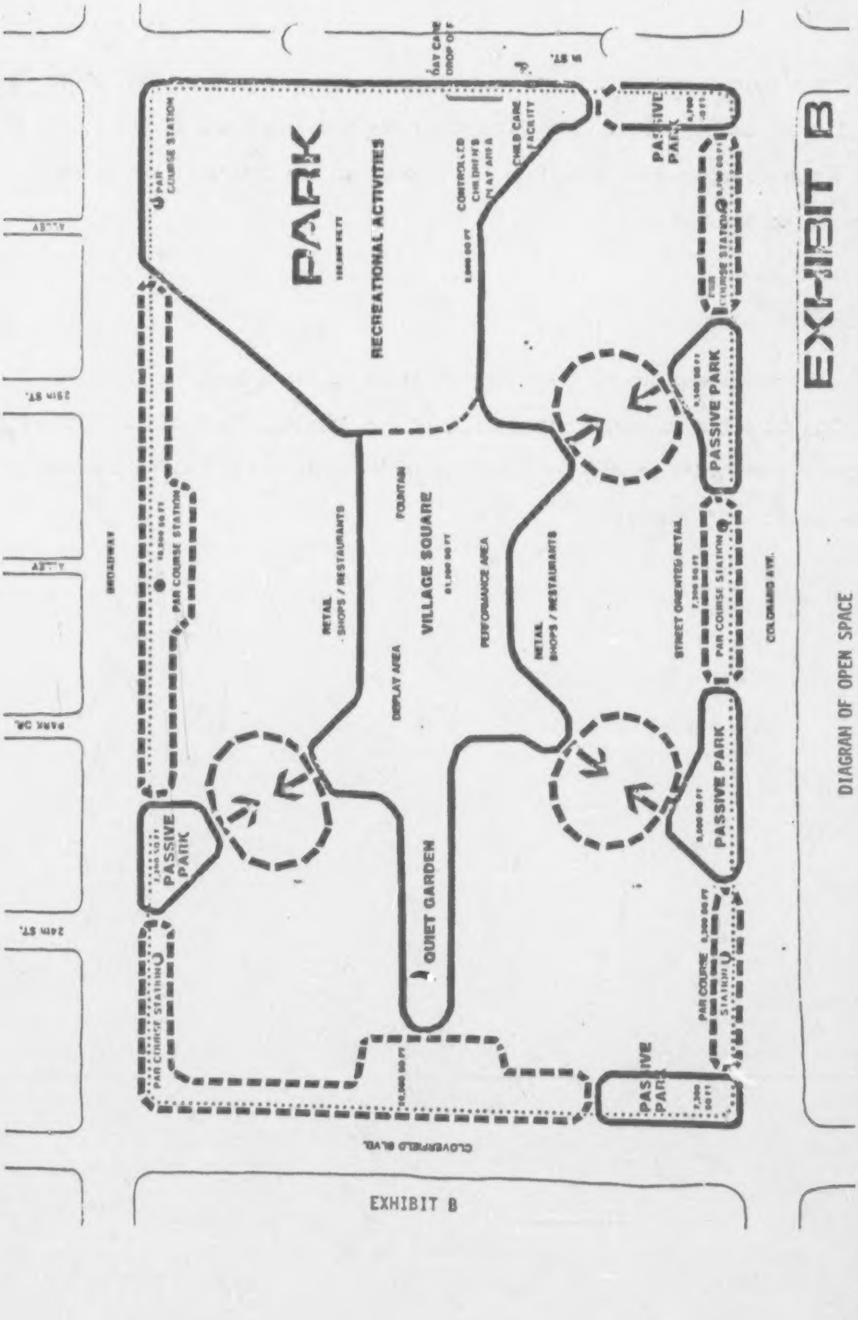

PARK
RECREATIONAL ACTIVITIES
PAR COURSE STATION
DAY CARE DROP OFF
CONTROLLED CHILDREN'S PLAY AREA
CHILD CARE FACILITY
PASSIVE PARK
PAR COURSE STATION
VILLAGE SQUARE
FOUNTAIN
PERFORMANCE AREA
DISPLAY AREA
RETAIL SHOPS / RESTAURANTS
RETAIL SHOPS / RESTAURANTS
STREET ORIENTED RETAIL
QUIET GARDEN
PASSIVE PARK
PASSIVE PARK
PASSIVE PARK
PASSIVE PARK
PAR COURSE STATION
PAR COURSE STATION
PAR COURSE STATION
BROADWAY
ALLEY
ALLEY
25th ST.
PARK DR.
24th ST.
26 ST.
CLOVERFIELD BLVD.
COLORADO AVE.

EXHIBIT B

DIAGRAM OF OPEN SPACE

EXHIBIT B

REQUIREMENTS OF GENERAL SERVICES DEPARTMENT

PHASE I

1. Upgrade traffic signals on Cloverfield at Broadway and Colorado. This work includes new controllers, pedestrian signals and new crosswalks. (Estimated cost $30,000.00.)

2. Participate in the widening of Cloverfield and associated traffic signal work between Broadway and Santa Monica Boulevard. (Estimated cost $40.000.00 or twenty-five percent (25%) of the total actual cost of the work, whichever is less.)

3. Install inter-connect equipment for the traffic signals on each of the frontages being developed in Phase I. (Estimated cost $16,000.00.)

4. Street lighting shall be installed on the street frontage bordering Phase I.

5. Fifty percent (50%) of the cost of resurfacing Colorado between 26th Street and Cloverfield with one inch (1") A.C. paving.

PHASE II

1. Widen Broadway four feet (4') to facilitate two-way left turn lane for traffic entering and exiting the Project. (Estimated cost $50,000.00.)

2. Install traffic signal inter-connect equipment on remaining frontages. (Estimated cost $20,000.00.)

3. Install traffic signal at Broadway and Yale. (Estimated cost $56,000.00.)

4. Widen 26th Street at Broadway as may be required by General Services Department to accomodate turning lane. (Estimated cost $50,000.00.)

5. Other requirements mutually agreed upon by General Services Department and Property Owner and designed to improve traffic conditions related to the Project may be substituted for any or all of the Phase II requirements numbered 1 through 4 above so long as the total cost of such substitute requirements does not exceed the total estimated cost of the deleted requirements, as specified above and adjusted by the percentage change in the Consumer Price Index for All Urban Consumers for the Los Angeles - Long Beach - Anaheim Metropolitan Area from the effective date of this Agreement to the date upon which a contract is entered into for the substitute requirements.

Exhibit C

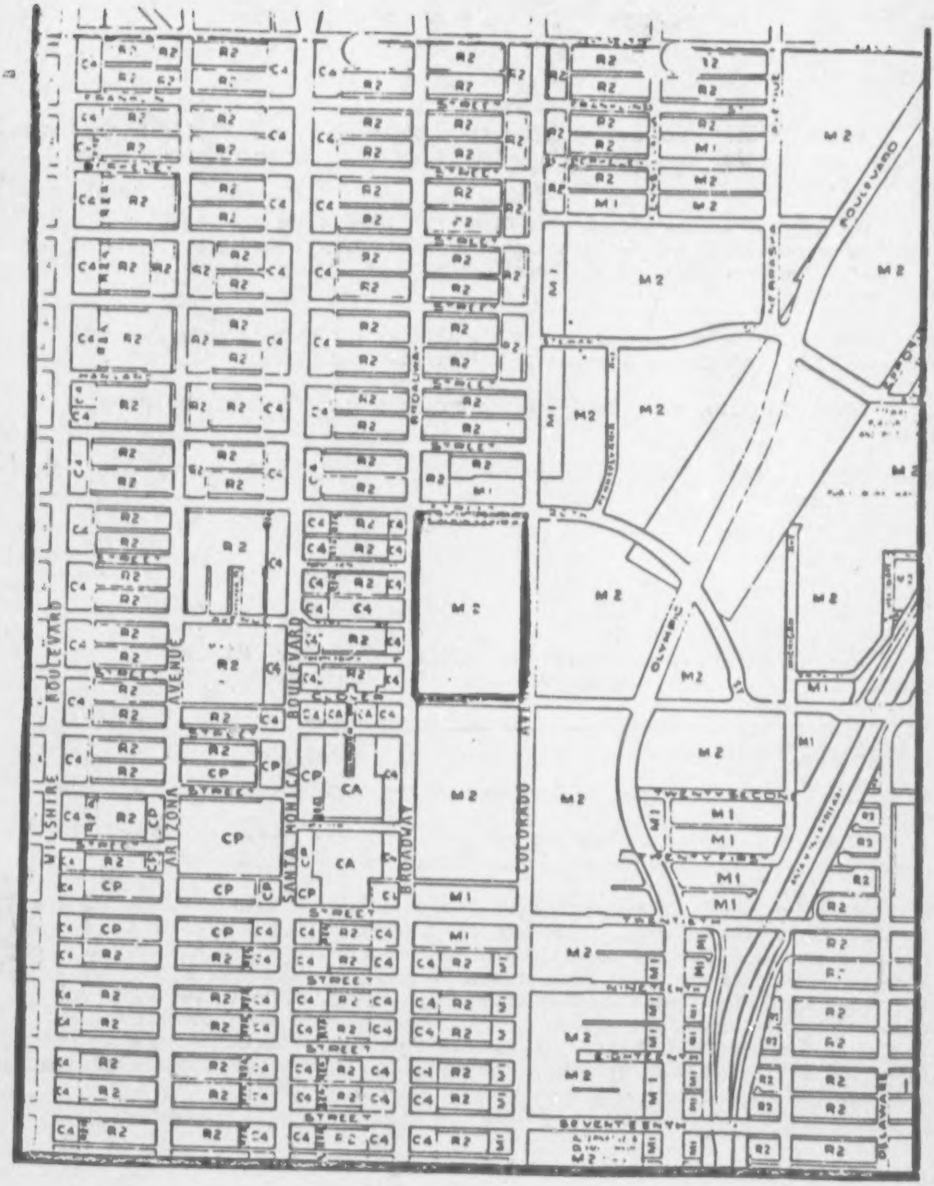

WILSHIRE BOULEVARD
ARIZONA AVENUE
SANTA MONICA BOULEVARD
BROADWAY
COLORADO AVE
OLYMPIC
BOULEVARD
TWENTIETH
NINETEENTH
EIGHTEENTH
SEVENTEENTH
TWENTY SECOND
DELAWARE
R2
C4
CP
CA
M1
M2

EXHIBIT B1

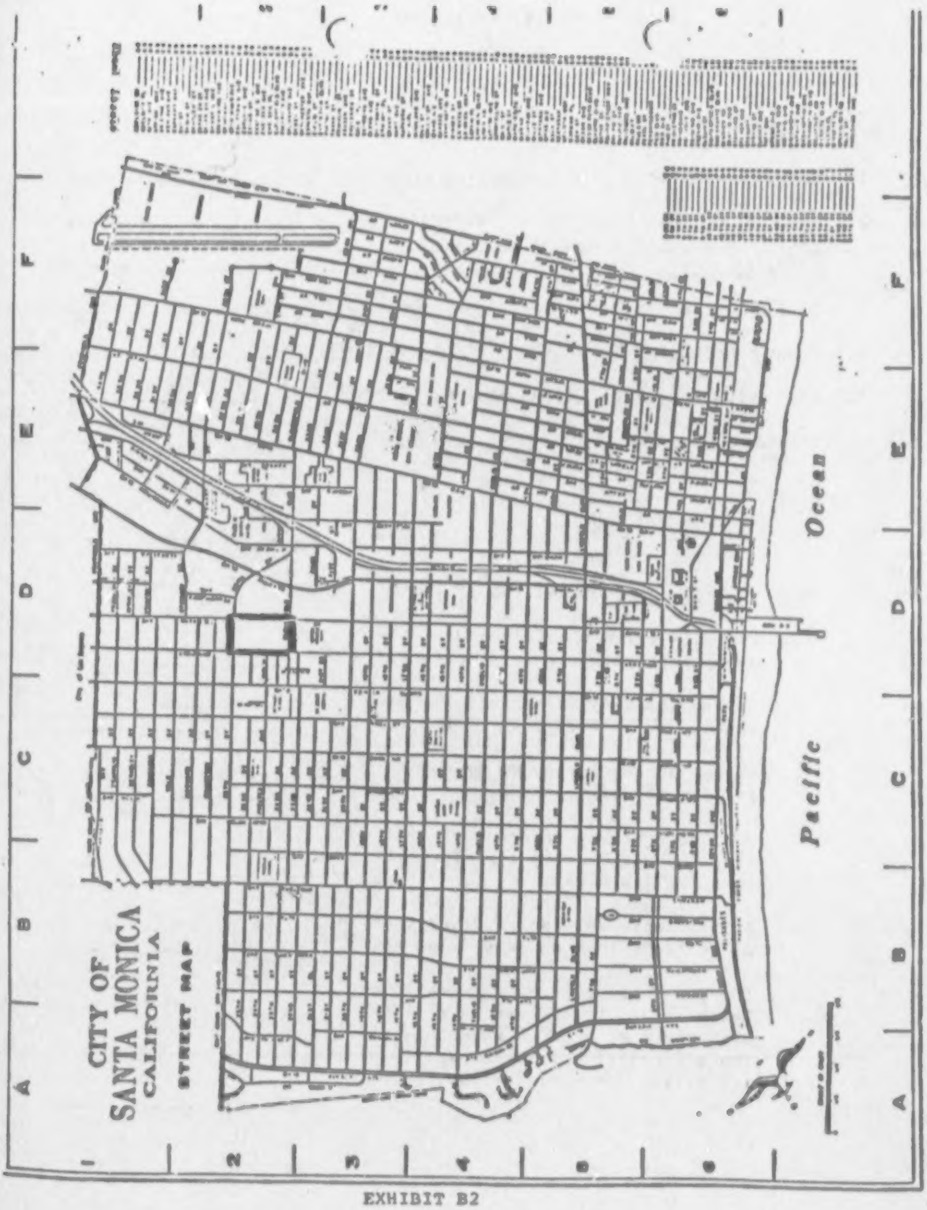

CITY OF
SANTA MONICA
CALIFORNIA
STREET MAP
Pacific
Ocean
A
B
C
D
E
F
1
2
3
4
5
6

EXHIBIT B2

ENVIRONMENTAL CHECKLIST FORM

I. Background

1. Name of Proponent Welton Becket Associates/Becket Investment Corporation
SEE ATTACHMENT A
2. Address and Phone Number of Proponent 2900 31st Street
Santa Monica, California 90405
(213) 450-0848
3. Date of Checklist Submission September 4, 1981
4. Agency Requiring Checklist City of Santa Monica Planning Department --Advance Planning
5. Name of Proposal, if applicable Colorado Place

II. Environmental Impacts

	YES	MAYBE	NO
1. Earth. Will the proposal result in:			
a. Unstable earth conditions or in changes in geologic substructures?			X
b. Disruptions, displacements, compaction or overcovering of the soil?	X		
c. Change in topography or ground surface relief features?			X
d. The destruction, covering or modification of any unique geologic or physical features?			X
e. Any increase in wind or water erosion of soils, either on or off the site?			X
f. Changes in deposition or erosion of beach sands, or changes in siltation, deposition or erosion which may modify the channel of a river or stream or the bed of the ocean or any bay, inlet or lake?			X

EXHIBIT C

g.	Exposure of people or property to geologic hazards such as earthquakes, landslides, mudslides, ground failure, or similar hazards? SEE ATTACHMENT B		X	
2.	Air. Will the proposal result in:			
a.	Substantial air emissions or deterioration of ambient air quality?	X		
b.	The creation of objectionable odors?			X
c.	Alteration of air movement, moisture or temperature, or any change in climate, either locally or regionally? SEE ATTACHMENT C			X
3.	Water. Will the proposal result in:			
a.	Changes in currents, or the course or direction of water movements, in either marine or fresh waters?			X
b.	Changes in absorption rates, drainage patterns, or the rate and amount of surface runoff?	X		
c.	Alterations to the course of flow of flood waters?			X
d.	Change in the amount of surface water in any water body?			X
e.	Discharge into surface waters or in any alteration of surface water quality, including but not limited to temperature, dissolved oxygen or turbidity?			X
f.	Alteration of the direction or rate of flow of ground waters?			X
g.	Change in the quantity of ground waters, either through direct additions or withdrawals, or through interception of an aquifer by cuts or excavations?			X
h.	Substantial reduction in the amount of water otherwise available for public water supplies?			X
i.	Exposure of people or property to water related hazards such as flooding or tidal waves?			X

SEE ATTACHMENT D

	YES	MAYBE	NO
4. Plant Life. Will the proposal result in:			
a. Change in the diversity of species, or number of any species of plants (including trees, shrubs, grass, crops, and aquatic plants)?			X
b. Reduction of the numbers of any unique, rare or endangered species of plants?			X
c. Introduction of new species of plants into an area, or in a barrier to the normal replenishment of existing species?	X		
d. Reduction in acreage of any agricultural crop?			X
SEE ATTACHMENT E			
5. Animal Life. Will the proposal result in:			
a. Change in the diversity of species, or numbers of any species of animals (birds, land animals including reptiles, fish and shellfish, benthic organisms, or insects)?			X
b. Reduction of the numbers of any unique, rare or endangered species of animals?			X
c. Introduction of new species of animals into an area, or result in a barrier to the migration or movement of animals?			X
d. Deterioration to existing fish or wildlife habitat?		X	
SEE ATTACHMENT E			
6. Noise. Will the proposal result in:			
a. Increases in existing noise levels?			X
b. Exposure of people to severe noise levels?			X
7. Light and Glare. Will the proposal produce new light or glare?	X		
8. Land Use. Will the proposal result in a substantial alteration of the present or planned land use of an area?	X		

	YES	MAYBE	NO
9. Natural Resources. Will the proposal result in:			
a. Increase in the rate of use of any natural resources?	X		
b. Substantial depletion of any non-renewable natural resource?	X		
10. Risk of Upset. Does the proposal involve a risk of an explosion or the release of hazardous substances (including, but not limited to, oil, pesticides, chemicals or radiation) in the event of an accident or upset conditions? SEE ATTACHMENT F		X	
11. Population. Will the proposal alter the location, distribution, density, or growth rate of the human population of an area? SEE ATTACHMENT G		X	
12. Housing. Will the proposal affect existing housing, or create a demand for additional housing? SEE ATTACHMENT G		X	
13. Transportation/Circulation. Will the proposal result in:			
a. Generation of substantial additional vehicular movement?	X		
b. Effects on existing parking facilities, or demand for new parking?	X		
c. Substantial impact upon existing transportation systems?			X
d. Alterations to present patterns of circulation or movement of people and/or goods?		X	
e. Alterations to waterborne, rail or air traffic?			X
f. Increase in traffic hazardous to motor vehicles, bicyclists or pedestrians? SEE ATTACHMENT H		X	

14. Public Services. Will the proposal have an effect upon, or result in a need for new or altered governmental services in any of the following areas:

	YES	MAYBE	NO
a. Fire protection?	X		
b. Police protection?	X		
c. Schools?			X
d. Parks or other recreational facilities?		X	
e. Maintenance of public facilities, including roads?		X	
f. Other governmental services?		X	
SEE ATTACHMENT I			
15. Energy. Will the proposal result in:			
a. Use of substantial amounts of fuel or energy?	X		
b. Substantial increase in demand upon existing sources of energy, or require the development of new sources of energy?	X		
SEE ATTACHMENT J			
16. Utilities. Will the proposal result in a need for new systems, or substantial alterations to the following utilities:			
a. Power or natural gas?	X		
b. Communications systems?	X		
c. Water?	X		
d. Sewer or septic tanks?	X		
e. Storm water drainage?	X		
f. Solid waste and disposal?	X		
SEE ATTACHMENT I			
17. Human Health. Will the proposal result in:			
a. Creation of any health hazard or potential health hazard (excluding mental health)?		X	
b. Exposure of people to potential health hazards?		X	
SEE ATTACHMENT F			
18. Aesthetics. Will the proposal result in the obstruction of any scenic vista or view open to the public, or will the proposal result in the creation of an aesthetically offensive site open to public view?			X

	YES	MAYBE	NO
19. Recreation. Will the proposal result in an impact upon the quality or quantity of existing recreational opportunities? SEE ATTACHMENT I	X		
20. Archeological/Historical. Will the proposal result in an alteration of a significant archeological or historical site, structure, object or building?			X
21. Mandatory Findings of Significance.			
a. Does the project have the potential to degrade the quality of the environment, substantially reduce the habitat of a fish or wildlife species, cause a fish or wildlife population to drop below self-sustaining levels, threaten to eliminate a plant or animal community, reduce the number or restrict the range of a rare or endangered plant or animal or eliminate important examples of the major periods of California history or prehistory?			X
b. Does the project have the potential to achieve short-term, to the disadvantage of long-term, environmental goals? (A short-term impact on the environment is one which occurs in a relatively brief definitive period of time while long-term impacts will endure well into the future.)			X
c. Does the project have impacts which are individually limited, but cumulatively considerable? (A project may impact on two or more separate resources where the impact on each resource is relatively small, but where the effect of the total of those impacts on the environment is significant.)		X	
d. Does the project have environmental effects which will cause substantial adverse effects on human beings, either directly or indirectly?			X

ATTACHMENT A

PROJECT DESCRIPTION

The Applicant, Welton Becket Associates/Becket Investment Corporation, proposes to locate a 900,000 square foot useable area low-rise hotel and commercial office complex on 15 acres of largely vacant land, zoned M-2, in Santa Monica. The site is bounded by Colorado Boulevard on the south, 26th Street on the east, Cloverfield Boulevard on the west, and Broadway Avenue on the north. The plaza/first floor level will include service, commercial, banks, restaurants, and shops. Underground parking for approximately 3,200 cars will be included. Other uses include a hotel, with guest rooms and conference facilities, a child care facility, and a plaza and recreational area. Extensive landscaping will be included. The property currently contains no trees or landscaping. The southern (first phase) parcel contains no structures. The northern (second phase) parcel includes several aging industrial buildings, many of which are vacant. Grading on the site was already underway (and is now halted by the current Santa Monica new construction moratorium) under an existing excavation permit. Approximately 8,000 cubic yards of earth have been moved.

It is the intent of the project to house Welton Becket Associates, System Development Corporation, TOSCO Oil Company, and others in the initial phase, with subsequent expansion in the second phase. Welton Becket Associates and System Development Corporation are currently located in the City of Santa Monica, while TOSCO Oil Company is located in West Los Angeles. All are faced with relocation.

Construction is scheduled to begin in September, 1981, with 5-6 years to project buildout.

ATTACHMENT B

GEOTECHNICS

The site is located in the northern portion of the Coastal Plain of Los Angeles County on a gently sloping plain between the Santa Monica Mountains and Ballona Gap. This topographic feature is identified as the Sawtelle Plain.

The only geologic hazards at the site are related to earthquakes. Damage caused by earthquakes is usually related to either actual displacement if fault movement occurs beneath a structure, or, more likely, violent shaking due to seismic waves. A large portion of the site is located in the Hazards Management Overlay District (HMOD) of the City of Santa Monica. This is due to possible existence of a concealed south branch of the Santa Monica fault beneath the southwest corner of the site (LeRoy Crandall and Associates, July, 1978). A further investiation of the possibility of this fault's rupture would be warranted. However, evidence indicates that the fault has not undergone movement since at least the Holocene Period (11,000 years). Other fault zones in the general vicinity of the site are the Charnock Fault (1.8 miles to the east), the Overland Fault (2.7 miles east), and the Inglewood Fault of the active Newport-Inglewood System (4.5 miles east).

The site is located 1.5 miles from the Pacific Ocean at an elevation of approximately 150 feet. Therefore, the risk of potential damage due to seismic sea waves (tsunamis) is insignificant. No large bodies of water are located in the vicinity of the site that could adversely affect the site due to seiches (oscillations in a body of water due to earth shaking). The parcel is not located within an area that has been designated as being flood prone (LeRoy Crandall and Associates, July, 1978).

Results of exploratory drillings on the site have shown fill deposits ranging in depth from 5 to 45 feet. The fill consists of a mixture of soils and debris. Large amounts of debris, including organic materials, were encountered at random.

ATTACHMENT C

AIR QUALITY CONSIDERATIONS

The project will employ people and services using automobiles and other vehicles on a regular basis, thus creating air pollutant emissions. Construction activities will generate air pollutant emissions, including possible fugitive dust, resulting from use of construction equipment and materials deliveries. No standing odors are anticipated as a result of construction-related or subsequent activities. Vanpooling, carpooling, and alteration of transit lines will be encouraged to minimize emissions (and traffic).

ATTACHMENT D

SEWER, WATER, AND DRAINAGE

The proposed project will result in greater impervious surface, which could affect surface runoff. This will be mitigated by applicant-supplied contributions to any necessary storm drain improvements and the proposed landscaping plan. Grading of the site to accommodate the project and landscaping may result in slight changes in drainage pattterns.

It has been calculated that the project will generate an incremental approximately 100,000 gallons per day of sewage. This project will be served by an old, inadequate sewer line in the (downstream) City sewer system. The applicant has proposed to make a contribution to upgrading this sewer line.

ATTACHMENT E

BIOLOGY

There are currently no plants or trees on the project site. Nor are there any indigenous animal habitats.

The proposed project will provide extensive landscaping, which may attract new animal habitats.

ATTACHMENT F

HUMAN HEALTH AND RISK

The project is sited on what was a City of Beverly Hills landfill site in the 1920s. The fill is believed to consist largely of fill dirt, brick rubble, and leaves. Excavation to approximately 45 feet below grade will be required to remove this fill (and to accommodate subterranean parking). Pockets of methane gas are known to exist in the fill deposits. The Applicant will also remove the fill from the site and ship it by truck to an approved sanitary landfill site.

Some risk is possible during excavation as methane gas is released from pockets trapped in existing on site landfill, to be removed during excavation. However, normal precautions will be taken to avoid release of harmful concentrations of gas or explosion.

ATTACHMENT G

POPULATION AND HOUSING

The project will house, among others, three major local (Santa Monica and West Los Angeles) employers, all of whom must relocate from existing sites. Since these tenants represent most of the rented space (and employment) in phase one, this will not involve major changes in commuting distances for their employees, little employment-related relocation into or out of Santa Monica is anticipated in phase one. Other available office space and first floor service and commercial space could generate relocations into Santa Monica, affecting population. Phase two will involve other tenants (whose origins are currently unknown). However, the Applicant assumes that most of the space offered in phase two will represent expansion by the three abovementioned firms and other firms presently located in Santa Monica and West Los Angeles.

The Applicant has agreed to supply 100 units of affordable housing elsewhere in the City. This will increase the City's base of affordable housing. It will also have a minor local effect on population.

ATTACHMENT H

ROBERT CROM ELIN AND ASS ATES, INC.
TRANSPORTATION AND TRAFFIC ENGINEERS
17071 VENTURA BOULEVARD ENCINO, CA 91316 TELEPHONE (213) 788-8570

27 February 1981

Mr. Carey McLeod, Project Director
Welton Becket Associates
2900 31st Street
Santa Monica, CA 90405

Subject: Colorado Place Traffic Study

Dear Mr. McLeod:

As requested, we are submitting the following information summarizing our traffic study concerning the potential traffic impacts of the additional traffic that would be generated by the Colorado Place Project.

Presently the street system in this part of the City of Santa Monica is operating at excellent levels of service. Additional roadway capacity is available for additional development. Phase I of the project will generate about 6,800 vehicles per day (vpd) and an inbound morning peak hour of 865 vehicles per hour (vph) as well as 950 vph outbound during the evening peak hour. These additional traffic volumes will not result in significant congestion at any of the ten intersections studied. When completed, the project will generate about 13,950 vehicles per day (vpd) with maximum peak hour volumes of about 1,575 vehicles per hour (vph) inbound in the morning peak hour and 1,600 vph outbound in the evening peak hour. The combined total of project plus existing traffic volumes will add some congestion at the Cloverfield Boulevard intersections of the eastbound freeway ramps, Olympic Boulevard, and Santa Monica Boulevard.

It is recommended that the middle southbound lane on 26th Street at Olympic Boulevard be designated for optional right or left turns rather than for right turns only. This should be accomplished by 1983 when Phase I is completed. As part of the ultimate project design, consideration should be given to widening the existing Broadway roadway adjacent to the site by narrowing the sidewalk on the north side of the site from its present 12-foot width to a future 8-foot width. By prohibition of parking adjacent to the site at all times, a 2-way left turn lane could be striped on Broadway between Cloverfield Avenue and 26th Street to improve site access. As part of long range planning, the City of Santa Monica should consider providing an eastbound right turn lane on Olympic Boulevard at Cloverfield Avenue to improve traffic signal operations at that location.

As part of project design, the Cloverfield Boulevard and 26th Street driveways should be restricted to right turning traffic only. Parking control equipment should be set up with the capability of reversing all lanes at each 2-lane location and the center lane if 3 lanes can be accomodated. For each location, a reservoir area of about 45 feet should be provided between the curb line and the control gate.

ATTACHMENT I

PUBLIC SERVICES AND UTILITIES

The project will create a more intense use of the land. Consequently, it will generate the need for additional fire and police protection. It may generate need for additional parks and recreation, traffic control, public utilities (including telephone, electricity, natural gas, water, sewer, storm drain, and solid waste disposal). Increased property taxes, sales and use tax subventions, franchise and business taxes, and utility hookup and user fees will result. These revenues will contribute to defraying public costs.

The Applicant has proposed extensive landscaping and pedestrian plaza amenities which would serve a recreational function. The applicant has also been asked by the City to devalop part of the site as a park. This would further add to the recreational supply. A day care center has also been proposed for the site.

ACHMENT J

ENERGY CONSERVATION

The proposed project will include various energy-conservation amenities and measures, including compilation and distribution of ride-share lists and computer scheduling of carpools and vanpools for all employees of all tenants; reduced parking rates for carpools and vanpools; encouragement of local transit service to project. All air conditioning and other mechanical equipment and motors will be started and stopped from the system console and water and air temperatures can be remotely reset. The foregoing, in conjunction with remote sensing of outside and inside conditions, will permit system operation refinements resulting in energy optimization, and will prevent unnecessary energy consumption during business and non-business hours. This system will also be used to control the use of lighting.

An economizer or "free cooling" cycle will be used which will permit the use of outdoor air rather than mechanically refrigerated air. Air supply quantities will be reduced as cooling load decreases resulting in reduced fan power consumption at reduced loads. Air supply to periodically unoccupied areas, such as conference rooms, can be minimized. Low pressure air distribution systems will be utilized to minimize fan horsepower. Cold plenum temperature at air conditioning units will be reset automatically to a higher temperature (when air conditions warrant) with resultant energy savings.

High efficiency fluorescent lamp/ballast systems will minimize energy consumption. Maximum provisions for local light switching will be provided to permit use of lighting only when space is occupied. Photo cell control of lighting in areas where natural illumination could suffice will be provided. Exterior and certain operational lighting will be controlled from the energy management system to optimize operation and minimize energy consumption. Where decor or function dictate the use of incandescent or tungsten halide lghting, extensive dimming equipment will be provided to optimize operation and increase lamp life.

Solar panels, roof mounted, will provide domestic water heating. Operable windows will be provided in atrium areas. Sliding glass doors will open to outside terraces. High efficiency roof and wall insulation as well as heat absorbing solar grey glass will be utilized to reduce cooling and heating loads. All air supply ducts will be insulated to reduce energy losses to non-conditioned spaces. Hot water piping and storage tanks will be fully insulated. Water-saving flush valves will be provided for toilet fixtures. Sun shading of windows will be incorporated where appropriate to further reduce air conditioning requirements.

SCAG
SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS
600 South Commonwealth Avenue • Suite 1000 • Los Angeles • California • 90005 • 213/385-1000

October 13, 1981

Ms. Patricia Reilly
Acting Principal Planner
City of Santa Monica
1685 Main Street
Santa Monica, Ca. 90401

Dear Ms. Reilly:

Thank you for the opportunity to comment on the negative declaration and development agreement for the Colorado Place commercial office and hotel complex. Staff has reviewed these documents and is forwarding the following comments. SCAG's Executive Committee has not taken a position on this project.

Both the traffic emission abatement program and the provision of low and moderate income housing through the proposed development agreement represents a unique approach to mitigating the adverse impacts associated with this project. The traffic emission abatement program includes all applicable measures in the 1979 AQMP and is therefore consistent with SCAG policies. The agreement, which calls for the provision of 100 units of low moderate income housing is consistent with SCAG policies.

Thank you again for the opportunity to comment. If you have any questions please contact Mark Alpers, Program Manager, Management Coordination Section at 385-1000.

Sincerely,

W.O. Ackermann Jr

W. O. Ackermann, Jr.
Director of Programming
and Evaluation

WOA/bb

State of California
GOVERNOR'S OFFICE
OFFICE OF PLANNING AND RESEARCH
1400 TENTH STREET
SACRAMENTO 95814

EDMUND G. BROWN JR.
GOVERNOR

October 19, 1981

Robert Myers, City Attorney
City of Santa Monica
1685 Main Street
Santa Monica, CA 90401

SUBJECT: SCH# 81091808 COLORADO PLACE

Dear Mr. Myers:

State agencies have commented on your negative declaration (see attached). If you would like to discuss the concerns and recommendations in their comments, please contact the staff from the appropriate agencies.

You may formally respond to the agencies' comments by writing to them, including the State Clearinghouse number on all such correspondence. You should attempt to resolve any concerns of state agencies before taking further action the the project. Once you have responded to the comments, state review of your draft environmental document will be complete.

A recent Appellate Court decision in Cleary v. County of Stanislaus clarified requirements for responding to review comments. Specifically, the court indicated that comments must be addressed in detail, giving reasons why the specific comments and suggestions were not accepted and factors of overriding importance warranting an override of the suggestion. Responses to comments must not be conclusory statements but must be supported by empirical or experimental data, scientific authority or explanatory information of any kind. The court further said that the responses must be a good faith, reasoned analysis.

If you would care for assistance, the Office of Planning and Research is available to help identify responsible agencies, organize coordination meetings, mediate disputes, and hold consolidated hearings.

Please contact Terry Roberts at (916) 445-0613 if you have any questions.

Sincerely,

Terry Roberts
for Stephen Williamson
State Clearinghouse

SW/dm
Attachments

cc: Ken Fellows, DWR

LOS ANGEL EGIONAL WATER QUALITY CONTROL CARD 10

INTERNAL MEMO

TO: Mr. James Burns
Projects Coordinator
Resources Agency
Resources Building, 13th Floor
Sacramento, CA 95814

FROM: Los Angeles Region

DATE: September 23, 1981

SIGNATURE: Raymond M. Hertel
RAYMOND M. HERTEL
Executive Officer

SUBJECT: The Negative Declaration for the Proposed Construction of Colorado Place in Santa Monica, Ca., State Clearinghouse I.D. #81091808, dated 9-19-81

We have reviewed the subject document on the proposed construction of the 900,000 square foot hotel-office complex on a former landfill site. The project on the 15-acre site will consist of a recreational park and no more than five structures

We do not foresee any significant water quality impacts resulting from the project, provided that the improvements to the sewage line and the storm drain, as proposed, are implemented before the completion of the project. Also, if the excavated fill material can not be hauled to an approved landfill site within a reasonable period of time following excavation, adequate measures should be taken to prevent the fill material from entering the waters of the state. We have no objections to the project as proposed if these conditions are observed.

cc: State Clearinghouse, ATTN: Terry

Mr. Carey McLeod, Project Director
Welton Becket Associates
27 February 1981
Page 2

If you have any questions concerning this summary information, please let us know. It has been a pleasure to serve Welton Becket Associates on this most interesting project.

Respectfully submitted,

ROBERT CROMMELIN AND ASSOCIATES, INC.

Robert W. Crommelin, P.E.
President

RWC/jiv

ROBERT W. CROMMELIN
No. 9667
CIVIL

Registered Professional Engineer
State of California
Civil C9667; Traffic TR486

RC&A #80720

THE IMPACT OF REDUCTIONS IN
FEDERAL AID TO NEW JERSEY

MAY 1982

Prepared by: The Center for State Politics and Public Policy
Eagleton Institute of Politics
Rutgers University

Carl Van Horn, Director
Henry Raimondo, Associate Director

Table of Contents

Section	Page
Preface	i
Summary	iv
Scope and Purpose of the Report	1
A Profile of Federal Aid Reductions	2
Impact on New Jersey's Counties and Local Governments	6
The Elimination of Public Service Employment Jobs in New Jersey	12
Reductions in the Social Services Block Grant Program	19
Federal Budget Reductions in Elementary and Secondary Education	28
Appendix A: Background Tables on Survey of Local Government Officials	32
Appendix B: Statistical Tables to Accompany Section on the Public Service Employment Program	36

PREFACE

New Jersey will receive over a half billion dollars less in federal aid in this fiscal year than it did last fiscal year. In response to this sharp reduction in federal assistance, the Division of Budget and Program Review of the Office of Legislative Services in the New Jersey Legislature, asked the Eagleton Institute of Politics to help them assess what these reductions have meant and will mean for the State of New Jersey and its local governments. This report summarizes the major findings of Eagleton's study.

The Eagleton study concentrated on how the budget reductions affected counties and municipal governments overall and upon three programs that sustained particularly large cutbacks. The three programs were Public Service Employment jobs, where $200 million were eliminated; the Social Services Block Grant (formerly Title XX), which lost nearly $20 million; and, federal aid programs to elementary and secondary education, where a decline of $56.5 million was felt. While the analysis examines roughly half of the federal aid reductions, it does not address the impact of reductions in direct financial assistance programs, such as Aid to Families with Dependent Children and Food Stamps.

The principal questions addressed by the analysis are:

- what programs or services have been reduced or eliminated?
- what programs or services have been absorbed by state or local governments and at what cost?
- what impacts have the budget reductions had on local taxes and fiscal health?

The purpose of the report is to provide information on the impact of federal budget cuts in order to help the New Jersey legislature assess state aid to local governments and the status of several governmental programs that are directly affected by the budget reductions. Because many of the budget cuts have only been in effect for six months or so, it is difficult to thoroughly assess their impact. A more comprehensive assessment awaits further developments in federal, state, and local government spending. Nevertheless, the analysis presents some preliminary indications of the initial impacts and trends in governmental responses to declining federal support.

The project was supported by Rutgers University and the Eagleton Institute of Politics' Center for State Politics and Public Policy. The research was designed and conducted by faculty members and graduate students at Rutgers University, with advice from the Division of Budget and Program Review. The project was directed by Carl Van Horn of Eagleton and Henry Raimondo, of the Economics Department at Rutgers. Graduate students enrolled in the political science department's program in Public Policy and Politics gathered information about federal budget cuts from over 80 counties and local governments in the state and conducted detailed case studies of nine jurisdictions. Over 100 interviews were also conducted with state and local program managers and school personnel to assess the impact of reductions in the Public Service Employment Program, the Social Services Block Grant, and aid to elementary and secondary education. We wish to express our appreciation to the people we talked to for giving us their time and information.

The summary report was written by Carl Van Horn and Henry Raimondo. The report on local government impacts is based on the statewide survey and case studies conducted by the project members listed on the next page. The summary information on Public Service Employment, Social Services Block Grant and Education are based on more detailed reports prepared by the project members.

The project director takes full responsibility for the contents of the entire report.

We are grateful to the staff of the Division of Budget and Program Review for their splendid cooperation. We would especially like to acknowledge the contribution of Gerald Silliphant, the Director of the Division, and the Division's Assistant Director, Stephen Fritsky.

Eagleton Project Members and Assignments

Carl Van Horn, Director; Henry Raimondo, Associate Director

Public Service Employment Programs

Chris Berzinski
Laurie Carroll
Betsy Garlatti
Mark Johnson
Jayne LaRocca
Peggy McNutt
Stanley Slachetka

Social Service Block Grant Programs

Lawrence Buhler
Gregg Edwards
Kevin Gallagher
Simone Hoffman
Lisa Lenz
David Nuse
Mary Lynne Shickich
David Westburg

Elementary and Secondary Education Programs

Charles Attal
Thomas Ciccarone
C. Derek Fields
Robert Green
Jean McGervey
Nancy Palmer
John Zeglarski

SUMMARY

This report summarizes the impact of federal budget reductions on the State of New Jersey and its local governments. The research was conducted by faculty members and graduate students at the Eagleton Institute of Politics of Rutgers University.

A Profile of Federal Aid Reductions

1. Federal aid to state and local governments reached its peak in federal fiscal year 1978 and has been declining ever since. This gradual downward trend was accelerated in fiscal year 1982 when federal aid dropped by over a half billion dollars,

2. Nearly half of these cuts ($310.5 million), fell on programs that provide direct cash assistance to low- and moderate-income people through such programs as Aid to Families with Dependent Children, Food Stamps, and Assisted Housing.

3. Another forty-five percent of the reductions ($300 million), came through programs operated by local governments, including the elimination of the Public Service Employment program and reductions for elementary and secondary education aid, and economic and community development projects.

4. Federal aid reductions to state government ($50 million) accounted for only 7.6 percent of the overall federal aid cuts.

5. Overall three-fifths of the budget cuts in New Jersey came in programs that provide direct assistance or services to low- and moderate-income people. If loans and grants to college students are included this figure climbs to 86% of all federal aid reductions.

6. Reductions to local government budgets represent a twenty-seven percent decline from federal aid received in 1980,although, the state's urban areas that were heavily dependent on federal aid experienced larger reductions.

Impact on New Jersey's Counties and Local Governments

A statewide survey of local officials from all New Jersey's counties and all municipalities with over 25,000 residents and detailed case studies on nine of those jurisdictions yield the following major findings:

1. At this early stage, the impact of the federal budget cuts are difficult to assess. Local governments are uncertain of their federal aid losses and what consequences they will have.

2. Local governments are passing the federal budget cuts along to people in their communities by reducing services. There is little willingness to raise taxes to replace a significant portion of lost federal grants. Local governments that are willing to raise taxes often can not because of the state's expenditure cap law;

3. Local governments would have to consider tax increases if General Revenue Sharing, other federal aid, or state aids are significantly reduced in the next few years.

4. Local governments have reduced their budgets primarily in the social service and public works areas. Local officials believe reduced expenditures in these categories might have long-term negative effects on their jurisdictions;

5. Local governments have generally avoided reducing core services, such as police, fire, and sanitation. In the future, some local officials fear they might lose the ability to fund even these services if there are additional federal and/or state budget cuts.

6. Local officials suggested four specific actions that they would like to see the state carry-out to help temper the impact of federal budget cuts. Specifically, local officials in

a. fifty-one jurisdictions want the state to relax the state imposed spending caps;

b. fifty-five jurisdictions want the state to increase state aid to local governments;

c. forty jurisdictions want the state to loosen state mandates, which force local governments to spend more money; and,

d. thirty-four municipalities want the state to take over some local government services.

The Elimination of Public Service Employment Programs

Our analysis of the elimination of $59 million Public Service Employment funds during fiscal year 1981 in New Jersey yields the following principal findings:

1. Six months after PSE ended, three out of every five former program participants were unemployed; one out of every five had been hired by state or local government agencies; and one in ten had obtained a job in the private sector.

2. In our sample of fourteen large program areas, 1,500 Public Service Employees were absorbed onto local government payrolls at a cost of $13 million for the first year.

3. Our sample of fourteen jurisdictions lost approximately $54 million in wages for Public Service Employees who would have been working for local government and private non-profit agencies had the program continued.

4. Service reductions affected all departments of municipal and county government, but especially social service programs and public works departments.

5. Significant losses were felt by private non-profit organizations who had employed approximately one out of every three Public Service Employees. They were unable to retain more than a handful of the federally-subsidized workers.

6. Within the first year, the elimination of Public Service Employment will cost the federal, state, and local governments $24.8 million in income transfer payments, including Unemployment Insurance, public assistance, and Food Stamps, for those who did not immediately obtain employment at the end of their participation on the PSE program.

7. PSE's elimination will reduce federal and state revenue collections by $15 million during the first year.

8. Overall, the withdrawal of federal spending for Public Service Employment in New Jersey will cost federal, state, and local governments at least $53 million for the first year. This amount includes the increased costs brought about by hiring former Public Service Employees, losses in tax revenues, and the costs of increased income transfer payments. It does not include the loss of public services performed by former PSE workers. In addition, there is at least $17 million less circulating in the New Jersey economy, due to the program's elimination, during the first year.

Reductions in the Social Services Block Grant Program

1. New Jersey received $83 million in state fiscal year 1982 funds for the Social Services Block Grant Program (SSBG)--a decrease of $14.9 million from the state fiscal year 1981 level. SSBG funding will drop by at least $4.2 million during the 1983 state fiscal year;

2. To compensate for the $14.9 million loss in the state fiscal year 1982, the department took the following actions designed to supplement SSBG and reduce services. Specifically, the department:

a. Transferred $6.1 million from the Low-Income Energy Assistance Program to SSBG, but this money has not been used for SSBG purposes yet and is being held "in reserve."

b. Reduced SSBG services in County Welfare Offices by $2.06 million spread over two state fiscal years. Additional cuts to County Welfare agency budgets may be implemented during the 1983 state fiscal year. Welfare agencies have responded by cutting staff levels and increasing workloads, reducing homemaker services, and shifting staff to other Federal funding services.

c. Closed five state operated day-care centers. Fifty-four employees were laid-off and 254 of the 304 children were either successfully transferred to other day-care centers or were scheduled for termination. Fifty children were terminated and not successfully placed in alternative care.

d. Implemented department-wide lay-offs and instituted a hiring freeze which will save between $1.4 and $2.3 million by June 30. Most lay-offs have come in administrative personnel, but direct services have also been affected. The cutbacks have increased staff caseloads and demoralized many remaining department workers.

e. Cut $400,000 in training programs for department employees.

f. Reduced programs of Alcohol Abuse prevention and treatment and family planning services in the Department of Health by $235,000.

3. Department officials claim that these measures will generate between $9.2 and $10.1 million. Therefore, total program reductions for the 1982 state fiscal year have amounted to approximately $3.1 million due to the $6.1 million in funds from the Low-Income Energy Assistance program. This leaves between $4.8 and $5.7 million unaccounted for and still to be made-up by June 30. Department officials are confident that accumulated future savings from lay-offs and the hiring freeze will make-up the difference by June 30. If these personnel actions do not save enough money, then surplus funds from the Child Welfare program, which serves similar clientele, can be drawn upon.

4. The Department plans to off-set the $4.2 million loss in SSBG funds for the next state fiscal year by cutting County Welfare agencies by $1.03 million and by enacting further reductions in The Division of Youth and Family Services and in contracts with private agencies that provide SSBG services.

5. At this time, it appears that future program reductions will fall most heavily on counseling services, preventative health care, homemaker services, and day-care services. The Governor's budget message called for the closure of nine state operated day-care centers, but the Department is re-examining its position and it is unlikely that these cuts will be implemented.

6. It is likely that next year's cuts will have more significant impacts than the actions implemented this year because it will be difficult to make-up the funding losses through the administrative efficiencies practiced this year without directly reducing services to SSBG clients. Also, unlike this year, it may not be possible to make-up program shortfalls through inter-program transfers and other off-setting devices.

Federal Budget Reductions in Elementary and Secondary Education

In 1982, federal aid to elementary and secondary education in New Jersey declined by $38.3 million from its level in 1981. Almost all of this decline is accounted for by reductions in funding for three programs:

1. A $5.3 million drop in funds for remedial education programs under Chapter I of the Education Consolidation and Improvement Act, formerly known as Title I. The impact of reductions in Chapter I, which amount to a seven percent decline, varies widely. Some districts will lose no more than seven percent of their funds for these programs; others will lose up to one-third of their Chapter I funding. School districts are already planning to reduce the number of Chapter I teachers, teacher's aides, and classroom activities. State spending for the State Compensatory Education program is going to increase by one-third in 1983 and will help off-set losses in the Chapter I program.

2. A reduction of 12% or $1.8 million in programs funded under the Education Block Grant, known as Chapter II. These programs provide basic skills improvement, educational improvement and support services, and special projects. Under a formula devised by the State Board of Education, four out of every five school districts will gain money for Chapter II programs this

coming school year, but there will only be eleven districts that gain over $100,000. One in five school districts will lose money under this formula, but only three districts will lose over $100,000.

3. A decline of 32% or $28.5 million in Child Nutrition programs. Participation in school lunch and school breakfast programs that subsidize or completely underwrite the cost of meals in the schools is down substantially from last year. School districts have eliminated twenty percent of their school breakfast programs and nine percent of their school lunch programs. Over 90,000 students are effected by these reductions, or about twenty percent of the students receiving school breakfasts and about fourteen percent of the students receiving school lunches. New Jersey state government has also reduced its contribution to the Child Nutrition programs by $4 million or thirty-six percent.

THE IMPACT OF FEDERAL BUDGET REDUCTIONS IN NEW JERSEY: A SUMMARY OF MAJOR FINDINGS

Scope and Purpose of the Report

New Jersey's state and local governments and citizens will receive over a half billion dollars less in federal aid in fiscal year 1982 than they did during 1981.

The Division of Budget and Program Review of the Office of Legislative Services asked the Eagleton Institute of Politics to help them assess the impact of federal budget reductions for the State of New Jersey and its local goverments. This report summarizes the major findings of that analysis.

Eagleton's analysis focused on how the budget cuts affected counties and municipal governments and upon three program areas that sustained large budgetary reductions during the current fiscal year--the elimination of nearly $200 million in Public Service Employment jobs, the loss of nearly $20 million in social service programs, and losses of $56.5 million in federal aid to elementary and secondary education. The Eagleton analysis, therefore, examines the impact of roughly half the federal aid reduction, including the major cuts to local and state government. Direct financial assistance programs for individuals, such as Aid to Families with Dependent Children and Food Stamps, are not investigated in this study.

The principal questions addressed by the analysis are:

- what programs or services have been reduced or eliminated?
- what programs or services have been absorbed by state or local governments and at what cost?
- what impacts have the budget reductions had on local taxes and fiscal health?

The purpose of the study is to provide information to the legislature to help it assess state aid to local governments and the status of several governmental programs that are directly effected by the budget reductions.

Before moving on to the findings, it is important to underscore a cautionary note. It is difficult to assess the impact of federal budget cuts at this early stage. Most of the budget cuts occurred six months ago so their long run importance is unknown. A thorough assessment of the federal budget impacts will not be possible until state and local governments and New Jerseyans have had to cope with them for a year or more. Nevertheless, our analysis presents some preliminary findings about initial impacts and trends in governmental responses to declining federal assistance.

A Profile of Federal Aid Reductions

Federal aid to state and local governments reached its peak in federal fiscal year 1978 and has been declining ever since. This gradual downward trend was accelerated in fiscal year 1982. Compared with fiscal year 1981, New Jersey will receive approximately $551 million less in federal operating assistance during the current fiscal year, according to the Governor's Washington Office. New Jersey will also lose nearly $100 million in capital aid from the federal government in fiscal year 1982.

In addition to the capital and operating assistance reductions for fiscal year 1982, the President and Congress rescinded approximately $110 million in fiscal year 1981 budgetary operating authority and over $150 million in capital spending authority for the State of New Jersey. These monies had been granted to state and local governments at the beginning of the 1981 federal fiscal year, but were withdrawn in mid-year.

The table below quickly summarizes the program areas where federal operating assistance has been reduced and how the reductions were distributed among state and local governments and individuals. The divisions between state governments, local governments, and people are somewhat artificial because most programs operated by state and local governments are designed to benefit people, eventually. The distinction has to do with whether the state or local government is responsible for delivering a service or not. Programs listed under financial aid to individuals generally provide direct cash payments to individuals. Programs listed under state and local government agencies involve the delivery of a wide variety of services through governmental agencies and private organizations.

Highlights of Program Reductions Federal (FY 1982) and Rescissions (FY 1981)
in Federal Operating Aid to New Jersey

(in millions)

A. Overview	Total	State	Local	Individuals
Federal Aid Level Reductions in FY 1982	$550.8	$48.6	$206.8	$295.4
Federal Aid Rescissions in FY 1981	$110.7	$ 1.4	$ 93.2	$ 16.1
Total Reductions and Rescissions	$661.5	$50	$300	$311.5
Share of Reductions and Rescissions	100%	7.6%	45.4%	47.1%

B. Programs Operated by State Government

The $50 million in federal aid rescissions and reductions in programs operated by state government were divided as follows:

Programs Reduced or Eliminated	Amount in Millions	Percentage of Total
Human Services Programs, including Title XX (Social Services, Block Grant)	$20.0	40.0%
Health Programs, including alcohol abuse, maternal and child care, family planning and health planning	$13.6	27.2%
Public Service Employment, the state Employment Service and other training programs	$ 7.2	14.4%
Mass Transit operating subsidies	$ 6.6	13.2%
Environmental Protection programs	$ 1.8	3.6%
Various Program areas	$ 0.8	1.6%

C. Programs Operated by Local Governments and School Districts

The $300 million in federal aid rescissions and reductions in programs operated by local government were divided as follows:

Programs Reduced or Eliminated	Amount in Millions	Percentage of Total
Public Service Employment and other training programs	$198.3	66.1%
Education Programs, including compensatory education, child nutrition, impact aid	$ 56.5	18.8%
Grants and Guaranteed Loans for Economic Development Projects	$ 26.5	8.8%
Community Development Block Grant	$ 10.0	3.3%
Various Program Areas	$ 8.7	2.9%

D. Programs Providing Direct Financial Assistance to Individuals

The $311.5 million in federal aid rescissions and reductions in aid to individuals and small businesses were divided as follows:

Programs Reduced or Eliminated	Amount in Millions	Percentage of Total
Loans and Aid to students enrolled in institutions of higher education	$167.6	53.8%
Financial Assistance for Low-income people, including AFDC, Food Stamps, energy assistance, work incentive programs	$ 93.4	29.9%
Assisted Housing Programs	$ 24.7	7.9%
Trade Adjustment Assistance	$ 25.0	8.0%
Various programs to help owners of farms	$ 0.8	.4%

Source: Governor's Washington Office, State of New Jersey

The overview of federal aid reductions reveals important clues about who is most affected and suggests several conclusions.

1. The cuts fell primarily on programs operated by local governments and on direct assistance to individuals

2. Low- and moderate-income people lost the lion's share of federal aid. Three-fifths of all the cuts came in programs that provide direct assistance or services to low- and moderate-income people (such as Public Service Employment, AFDC, Food Stamps, and assisted housing programs). If loans and grants to college students are included, this figure climbs to 86% of all federal aid reductions.

3. Reductions to local governments represent a twenty-seven percent decline from aid in 1980, although, the State's urban areas that were most dependent on federal aid experienced larger reductions.

Impact on New Jersey's Counties and Local Governments

The findings presented in this summary are based on an analysis of the budgets of local governments and on personal interviews with senior officials and program managers. The analysis of local aid reductions is based on a statewide survey of 80 jurisdictions--all counties and all municipalities with more than 25,000 residents. County Administrators and Finance Officers, and Municipal Managers and Finance Officers from the 80 jurisdictions were contacted by Eagleton staff during the months of February and March as they prepared their fiscal 1982 budgets. (Detailed results of the survey may be found in Appendix A of this report.)

The statewide survey was supplemented by more detailed case studies of the experience in nine jurisdictions--Passaic, Middlesex and Camden counties, in the cities of Paterson, New Brunswick and Camden, and in Wayne, Piscataway, and Cherry Hill Townships--which were selected by the Division of Budget and Program Review.

Generalizations about the statewide patterns are based on the statewide survey. Specific examples, however, that represent the statewide trends are drawn for illustrative purposes from the case studies. The central purpose of the statewide survey and the case studies was to examine the impact of federal budget cuts on the local government employment, services, taxes, and capital spending. In addition, local government officials discussed the role of the state government in light of the federal budget cuts.

Government Employment

Virtually all of New Jersey's counties and municipalities are releasing large numbers of public employees in response to federal budget cuts. The employee reductions began in 1979, with the shrinkage of the Public Service Employment and Anti-Recission Aid programs, and continued this year when Public Service Employment programs were eliminated (for details see the next section of this report) and other federal assistance to local governments was scaled back.

Government employee lay-offs are most common in larger, fiscally distressed communities. For example, Newark reported lay-offs of 1,600 workers or over twenty percent of its workforce. Paterson terminated over 500 employees; Elizabeth lost 300 workers.

Lay-offs also occured in smaller, relatively well-off municipalities, where "well-off" is measured by per capita personal income and per capita municipal equalized full property value. Thus, for example, such towns as Long Branch, Brick Township, and Howell, experienced government employee reductions.

As an alternative to employee lay-offs, rollbacks in wage and benefit levels have not been popular. Only four municipalities have instituted such plans and only one county and five additional municipalities planned to do so.

Local Public Service Provision

The reduction in local government employment inevitably affects the provision of local public services. Local governments are passing on the 1982 federal budget cuts to people in their communities by reducing services. For example, among the case study counties Camden picked-up 3 percent of the federal reductions, Passaic 2 percent, and Middlesex 11 percent. The severity of the reductions are directly associated with certain local characteristics. Jurisdictions, which have a relatively large population, spend relatively more on public services per person, receive relatively more intergovernmental assistance per person, or have relatively limited local resources (e.g. income and property value), have experienced greater public service reductions than those without these traits.

Local jurisdictions have particularly reduced social services and public works. Social service programs are effected in three ways: (1) changes in eligibility for Food Stamps and AFDC, (2) cuts in grants which fund social services (e.g. Title XX, Community Development Block Grants), and (3) cuts in Public Service Employment workers in the social service area. Examples of reductions in social services are: Camden County lost $1.2 million which funded child day-care, legal services, and adult day-care; Passaic County eliminated its Office of the Disabled, Nursing Home Ombudsman, and legal services for the Elderly; and Paterson eliminated its $400,000 contribution to child day-care.

Public works have also suffered large reductions. With these cuts, scheduled repair and maintenance are postponed. Paterson lost 300 workers in this department; Camden reduced its department by 35 percent; and even Wayne and Cherry Hill forecast cuts in this area.

Reductions are found in areas outside of social services and public works. For example, the City of Camden joined Irvington, Kearny, and Paterson in cutting the police and/or fire departments. Cuts in these service areas are usually the exception, however. Most local jurisdictions have shielded essential local public services; such as, fire, police, and sanitation. Since jurisdictions have protected these "core" services at the expense of other services, it is not clear how local governments would absorb further federal or state budget cuts in the next fiscal year. This uncertainty is revealed in the survey findings.

City officials in Newark, Trenton, Camden, Jersey City, and Paterson predict an increase in demand for locally funded public assistance programs for the indigent. None of the five cities would be able to meet these demands. In addition to these five, thirteen counties and forty-four municipalities, particularly those characterized by poverty and high unemployment, anticipate increased pressure on social services.

Local Taxes

Even with local public service reductions, jurisdictions have increased taxes as a result of federal budget cuts. Approximately two out of five of those surveyed (32 of 80) have done so. None of the nine case study jurisdictions have raised taxes. At the local level, a tax increase means a property tax increase. There is not much interest in instituting other revenue-raising devices, such as user fees. Only six municipalities have considered increasing user fees.

Property tax increases have occurred in large population municipalities which have a relatively low equalized full value property base per person (i.e., limited resources). Many of these places are already supporting a relatively high level of public services (i.e., high per person spending).

Just as in the case of future public service reductions, there is great uncertainty about future revenue increases associated with future cuts in intergovernmental assistance. Municipalities are waiting for the fiscal year 1983 federal budget and this year's State budget to coalesce before announcing a local revenue strategy. Some local officials predict property tax increases might occur if General Revenue Sharing and/or state aid is substantially reduced in fiscal year 1983.

Capital Spending

Federal budget reductions have not only reduced local government operating expenditures; they have also caused local governments to alter their capital spending plans. Six counties and twenty-three municipalities have postponed capital spending projects. This has happened because federal grants for local roads, bridges, and sewers have been cut; general economic development grants have been reduced, and CDBG has been decreased. Reduced capital spending has occurred in large jurisdictions: Passaic County has delayed work on the Paterson/Hawthorne Turnpike, Paterson has slowed down its Great Falls Historical District project, and Middlesex County has reduced housing rehabilitation programs. It has occurred in small jurisdictions as well: New Brunswick is being forced to incur more debt or scale-back its revitalization plans and Wayne must institute higher user fees or reduce the size of the Mountainview Sewerage Treatment Plant (which is mandated by federal and state government regulations).

Role of the State Government

The reduction in federal intergovernmental assistance is producing changes in federal-state-local relations. At this time, there is no clearly perceived role that local governments have in mind for the state government. However, local officials mentioned four specific actions they would like to see the state carry-out.

(1) Officials from ten counties and forty-one municipalities very strongly urged that the state should relax the state-imposed spending caps;

(2) Officials from fifteen counties and forty municipalities called for increased state aid to local governments;

(3) Officials from ten counties and twenty-four municipalities advocated a state take-over of some local government services; and

(4) Officials from ten counties and thirty municipalities favored a loosening in state mandates, especially in the judicial area.

In general, local officials want less state-imposed restrictions and more state-funding to help them cope with federal budget cuts.

Summary

The statewide survey of local officials in eighty jurisdictions and the nine detailed case studies conclude that:

(1) At this early stage, the impact of the federal budget cuts are difficult to assess. Local governments are uncertain of their Federal aid losses and what consequences they will have.

(2) Local governments are passing the federal budget cuts along to people in their communities by reducing services. There is little willingness to raise taxes to replace a significant portion of lost federal grants. Local governments that are willing to raise taxes often can not because of the state expenditure cap law.

(3) Local governments would have to consider tax increases if General Revenue Sharing, other federal aid, or state aids are significantly reduced the next few years.

(4) Local governments have reduced their budgets primarily in the social service and public works areas. Local officials believe reduced expenditures in these categories might have long-term negative effects on their jurisdictions.

(5) Local governments have generally avoided reducing core services, such as police, fire, and sanitation. In the future, some local officials fear they might lose the ability to fund even these services if there are additional federal and/or state budget cuts.

(6) Local officials suggest that state government should reduce mandates on local governments and target aid monies to temper the impact of federal budget cuts.

The Elimination of Public Service Employment Jobs in New Jersey

Probably the most significant reduction in federal aid to New Jersey for fiscal years 1981 and 1982 was the elimination of the Public Service Employment Program (PSE) under the Comprehensive Employment and Training Act (CETA). With program funding rescissions of $59 million in fiscal year 1981 and a reduction of $128.5 million for fiscal year 1982, New Jersey lost approximately $187.5 million--a figure that accounts for roughly two-thirds of all federal budget reductions to local governments for both fiscal years.

If the Public Service Employment program had continued at full funding in fiscal year 1981 and at proposed levels for fiscal year 1982, approximately 17,000 jobs would have been provided to unemployed and low-income New Jerseyans in order to perform public services in New Jersey state and local governments and private non-profit agencies. Table 1 in Appendix B shows the PSE allocations for 1981, the actual expenditures after the rescission of $59 million, and the average number of job slots provided in each New Jersey "prime sponsor" area.

In March 1981, President Reagan announced, and the Congress subsequently approved, the phase out and elimination of the Public Service Employment program. State and local prime sponsors quickly moved to terminate PSE participants. The federally-subsidized employees were either: (1.) absorbed by their employers at a cost to local resources; (2.) placed in private sector jobs; (3.) transfered to other components of CETA which had not been eliminated; or, (4.) left unemployed and therefore eligible for various forms of governmental support, including Unemployment Insurance, Food Stamps, and welfare.

Our analysis of PSE's elimination examines the impact that the withdrawal of $59 million in PSE wages in fiscal year 1981 had on people, on state and local government services and budgets, and on the New Jersey economy. The data upon which our conclusions are based on analyses of statewide program information, the statewide survey of 80 governmental jurisdictions, and a more detailed investigation of the post-program impact in fourteen of the twenty-two prime sponsor areas. These fourteen jurisdictions spent nearly two-thirds of all Public Service Employment monies in fiscal year 1981 (See Table 1 in Appendix B.)

What Happened to the Public Service Employees who were Terminated?

As of September 30, 1981, the following information reports on the status of the 7,425 people who had worked under PSE in our fourteen sample jurisdictions:

- 58.4% or 4,338 were still unemployed;
- 19.8% or 1,477 obtained jobs in the public sector;
- 9.8% or 731 were hired by the private sector;
- 9.5% or 709 were transfered to other CETA programs;
- 2% or 149 experienced other "positive terminations", such as returning to school.

The experience of PSE participants varied widely across the state. Some jurisdictions, such as Newark, Hudson County, Essex County, and Passaic County were able to place only about one-third of their workers in public or private sector jobs. Other jurisdictions, including Mercer County, Somerset County, Monmouth County, and Morris County, placed over two-thirds of their PSE participants in public or private sector positions.

Costs to Governments and Reductions in Public Services

The elimination of PSE cost local governments the wages of those people they absorbed onto their payrolls and brought about reductions in services that had been rendered by the Public Service Employees either for local government or for private non-profit organizations.

Government agencies within our fourteen sample prime sponsorships absorbed nearly 1,500 of the 7,425 workers who had previously been funded by the federal Public Service Employment program. Using conservative estimates of the average wages for these newly hired workers, governments in these areas will spend over $13 million during the first year on these individuals. The median cost of absorbing new workers was approximately $800,000 per year for the prime sponsor areas, but the impact varied. At the high end of the scale, it will cost Newark and Hudson County governmental jurisdictions over $2 million apiece, per year, to hire the former federally-funded employees. Monmouth County, Essex County, and Jersey City each will spend over $1 million per year to absorb Public Service Employees onto their payrolls (See Table 2, Appendix B).

Due to the withdrawal of full funding for PSE in fiscal year 1981, the fourteen prime sponsor areas lost nearly $54 million in wages for 5,996 PSE workers who would have provided public services. These people were not hired by municipal, county, or private non-profit agencies (See Table 3 in Appendix B). While every jurisdiction lost services some jurisdictions with large PSE labor forces, were particularly hard hit. Hudson County and Newark each lost approximately $10 million in public services due to the withdrawal of fiscal year 1981 federal support. Even smaller jurisdictions, such as the City of Camden and Morris County, lost well over $1 million in services for their residents.

The termination of Public Service Employees affected all divisions of municipal and county government. The largest impacts, however, occurred in social service programs, especially those providing transportation, health, and nutrition services for senior citizens, health programs for low-income individuals and the handicapped, and housing and weatherization programs for low- and moderate-income people. Significant cuts were also sustained in departments of public works maintenance and construction, including road and bridge repair. Smaller reductions were experienced in parks and recreation programs, sanitation services, and in public safety departments.

Significant reductions in government services were compounded by the loss of services that had been delivered by private non-profit agencies that employed approximately one-third of the Public Service Employees. In general, private non-profit agencies, such as the United Way, the Urban League, and the Red Cross, used their federally-supported workforce to provide social services that local governments were either unwilling or unable to provide. Private non-profit agencies were usually unable to absorb the terminated PSE participants because they had no alternative funding sources. The private non-profit agencies most severely effected by the elimination of PSE were those serving low- and moderate-income individuals, senior citizens, and the handicapped.

Indirect Impacts on Government Spending and the Economy

PSE's elimination directly affected the budgets and service levels of New Jersey's governments and private non-profit agencies. There were, however, important indirect,adverse impacts, through increased demands on income transfer payments, lost tax revenue, and lost wages to stimulate the New Jersey economy.

Within the first year of PSE's elimination in New Jersey, we estimate that it will cost $24.8 million in income transfer payments for those people who did not obtain employment with government agencies or the private sector as soon as they left the PSE program. (The total cost of fully funding PSE in fiscal year 1981 would have been $55.8 million.) Within the first year, these people will draw upon various income transfer payments for which they are automatically eligible. Approximately $20.2 million of the increased transfer payments will come in the form of Unemployment Insurance checks, funded for PSE workers by the federal government. The remainder will be paid out in Food Stamps and public assistance programs that are jointly funded by the federal, state, and local governments.

Our estimates of income transfer payment costs, assume that 70% of those who did not obtain employment will receive an average of 25 weeks of unemployment insurance, that 15% of the unemployed will go on welfare and receive it for a year, and that 40% of the unemployed will get Food Stamp assistance for a year. (Using the lowest reasonable estimates, that only 50% of the unemployed would seek Unemployment Insurance and receive it for only 15 weeks, yields an estimated income transfer payment cost of $8.6 million for one year. Using the highest reasonable estimates, the elimination of PSE could cost $52.5 million in income transfer payments within one year. /See Table 4, Appendix B./)

In addition to the costs of income transfer payments, the elimination of PSE will cost the federal and state government approximately $15 million in reduced tax revenues during the first year. Of this amount, New Jersey state government will lose $1.4 million. The calculation of lost tax revenues represents the net loss in tax payments that would have been paid by the unemployed PSE participants if they had remained on the PSE program. (Again, using the lowest reasonable estimate, the elimination of PSE would cost $2 million in lost federal and state tax revenues; the highest reasonable estimate would be $19.8 million in revenue reductions during the first year. /See Table 5, Appendix B./)

When the costs of increased income transfer payments and lost tax revenues are combined, we estimate that the elimination of PSE cost federal, state, and local governments at least $53.million in direct and indirect costs during the first year. This figure represents $13 million of increased costs attributable to absorbing PSE workers onto local government payrolls for our sample of fourteen prime sponsor areas and the $40 million in increased income transfer payments and forgone tax revenues. (This amount is a low estimate because the costs of absorbing workers was undoubtedly higher because we excluded nine prime sponsor areas from our analysis.) The $53 million in direct and indirect costs do not take into account the amount of money in lost services to the communities.

When the PSE program was eliminated, the federal government immediately saved $58.8 million. In the first year, however, federal, state, and local governments will lose at least $53 million through higher government payroll costs, higher income transfer payments, and lower tax revenues.

Finally, the elimination of PSE reduced the amount of money circulating in the economy. The reduction of money in circulation is the difference between the amount of money that unemployed people received through income transfer payments and the amount that they would have received if they had remained at their PSE jobs. Our estimate is that there will be at least $17.2 million less circulating in the New Jersey economy this year due to the elimination of the Public Service Employment program.

Summary of Impacts

Our analysis of the elimination of Public Service Employment programs in New Jersey yields the following principal findings:

1. Six months after PSE ended, three out of every five former program participants were unemployed; one out of every five had been hired by state or local government agencies; and one in ten had obtained a job in the private sector;

2. In our sample of fourteen large program areas, 1,500 Public Service employees were absorbed onto local government payrolls at a cost of $13 million for the first year.

3. Our sample of fourteen jurisdictions lost approximately $54 million in wages for Public Service Employees who would have been working for local government and private non-profit agencies had the program continued;

4. Service reductions affected all departments of municipal and county government, but especially social service programs and public works departments;

5. Significant losses were felt by private non-profit organizations who had employed approximately one of every three Public Service Employees. They were unable to retain more than a handful of the federally-subsidized workers;

6. Within one year, the elimination of public service employment will cost $24.8 million in income transfer payments, including Unemployment Insurance, public assistance, and Food Stamps, for those who did not immediately obtain employment at the end of their participation on the PSE program;

7. PSE's elimination will reduce federal and state revenue collections by $15 million during the first year; and,

8. Overall, the withdrawal of federal spending for Public Service Employment in New Jersey will cost federal, state, and local governments at least $53 million for the first year. This amount includes the increased costs brought about by hiring former Public Service Employees, losses in tax revenues, and the costs of increased income transfer payments. It does not include the loss of public services performed by former PSE workers. In addition, there are at least $17 million less circulating in the New Jersey economy, due to the program's elimination, during the first year.

Reductions in the Social Services Block Grant Prrgram

The federally-supported Social Services Block Grant, created in 1982, replaced three smaller social services grants that were commonly known as Title XX services. Under the new law, New Jersey received $83 million in state fiscal year 1982 funds--a decrease of $14.9 million from the state fiscal 1981 level. Cutbacks in the Social Services programs represent roughly 40% of the 1982 fiscal year reductions in federal programs operated by New Jersey state government. Social Service Block Grant funding from Washington will drop by at least $4.2 million during the 1983 state fiscal year.

The principal goals of the Social Services Blcok Grant (SSBG) are to help people achieve or maintain economic self-sufficiency, to prevent the neglect and abuse of young people, and to thereby reduce inappropriate and expensive institutional care. New Jersey offers twenty-five different SSBG services, the most common of which are child day-care and protective services, and homemaker and health services.

The State's Department of Human Services administers SSBG. About a third of SSBG's funds are channeled through the Department's Division of Youth and Family Services (DYFS), which provides protective services and family counseling for child abuse and child neglect cases. Another third of the SSBG allocation is spent through contracts with private non-profit agencies that render such services as family planning, homemaker care, home delivered meals, and medically-related transportation. A quarter of the SSBG money is administered by County Welfare offices in order to provide social services for those on public assistance. The remaining money is utilized by other Divisions in the Department of Human Services and by other state agencies.

The new Social Services Block Grant eliminated eligibility requirements. In an effort to target the funds, the Department of Human Services decided to retain the old Title XX requirement that clients must be below 80% of the State's median income in order to be eligible for services. Under this eligibility criterion, about 40% of the State's population is eligible for SSBG services.

The Social Services Block Grant contains no requirement for State or local matching funds. Under the previous law, Title XX, a 25% match was required from state, local, or private sources to leverage federal aid. The State Department of Human Services decided to retain the matching requirement.

Throughout Title XX's history in New Jersey, contributions from state and local sources typically exceeded the amount of matching funds required by the federal government. Last year, for example, in the 1981 state fiscal year, state, local, and private sources spent $51.2 million and thus exceeded the amount needed to match the $97.9 million in federal Title XX aid. During state fiscal year 1982, contributions to match the $83 million in federal aid remained roughly stable.

Our analysis of the Social Services Block Grant focuses on how the Department of Human Services and the various providers of services under the grant are coping with the reduction in federal assistance this year. Eagleton staff interviewed over twenty-five officials in the Department of Human Services's central office, in the Division of Youth and Family Services' regional and district offices, and in County Welfare agencies. Additional information was garnered from the State Comprehensive Annual Social Service Plan, County Welfare agency budgets, and County Welfare Agency Comprehensive Annual Social Service Plans.

Actions taken by the Department of Human Services

Because federal and state fiscal years do not coincide, the Department of Human Services chose to absorb $14.9 million of the total SSBG reduction of $19.1 million during the state's 1982 budget. The remaining $4.2 million will be absorbed by the State in the 1983 state fiscal year. To compensate for the $14.9 million loss in the state 1982 fiscal year, the Department of Human Services took several actions designed to supplement the SSBG budget and to reduce services and expenditures. Specifically, the Department:

1. Transferred $6.1 million from the Low-Income Energy Assistance Program to the Social Services Block Grant program
2. Reduced SSBG funds for County Welfare offices by $1 million
3. Closed five state operated day-care centers
4. Implemented Department-wide lay-offs and instituted a hiring freeze
5. Reduced funds for training Department employees
6. Reduced funds for Alcohol Abuse and Family Planning programs in the Department of Health.

The Department claims that these measures will generate between $9.2 and $10.1 million. Total program reductions for the 1982 state fiscal year have amounted to approximately $3 million, due to the $6.1 million in fund transfers that boosted the SSBG budget. According to the Department staff, however, these transfer funds may not be available next year to help make up the loss of federal SSBG funds. The actions of the Department are detailed below.

Transfer of Low-Income Energy Assistance Funds to SSBG

In order to off-set the reduction in SSBG support from the federal government, the Department of Human Services transferred $6.1 million from the Low-Income Energy Assistance Program to the Social Services Block Grant. Under the federal law governing the energy assistance program, States are permitted to transfer up to 10% of their funds to other purposes. New Jersey had a surplus of energy assistance funds in federal fiscal year 1981 of $17 million and the fiscal year 1982 allocation was increased by another $12 million to $72.7 million. Consequently, Department officials concluded that transferring funds to the SSBG program would not adversely effect the Low-Income Energy Assistance Program as it was underspending its allocation. The Department has not spent the "transferred" funds yet. It is keeping the funds in reserve and will use them if the other cost saving measures have been unable to make up the $14.9 million loss by June 30, the end of the state fiscal year.

Reductions in County Welfare Agencies

The largest direct service reductions were sustained by County Welfare Agencies. During the current fiscal year, they received approximately $1.03 million less for SSBG services for those on public assistance. This reduction amounts to roughly 9 percent of their SSBG allocation, a drop from $23.5 million in fiscal year 1981 to $22.47 million during state fiscal year 1982. Between July 1 and December 31, 1982, County Welfare Agencies must absorb an additional budget cut of $1.03 million. Thus, the total planned reduction in service to County Welfare Agencies is $2.06 million for state fiscal year 1982 and 1983. Additional cuts may be implemented during the 1983 state fiscal year.

In general the County Welfare agencies reacted to the reductions by shifting staff to other federal funding sources, cutting staff levels and increasing staff workloads, and reducing homemaker services. County Welfare staff do not believe that the loss of funds this year will have dramatic impacts on their client population. They are concerned, however, that reduced attention to family problems due to higher staff caseloads will mean that those problems will not be dealt with until they reach a crisis stage.

Five State Operated Day-Care Centers Closed

As part of an overall Department staff reduction plan, five state operated day-care centers were closed, laying off over fifty day-care workers. The day-care centers were located in Trenton, New Brunswick, Atlantic City, and in Jersey City, where two centers were closed. Of the 304 children effected by the closings, 254 of them were successfully placed in another center or were due to leave the centers at about the same time they were closed. The remaining 50 children were terminated from the day-care centers and not successfully placed in alternative care.

Though the figures on the number of successful alternative placements seem fairly high, Department officials pointed out that the transfers were effected by imposing a freeze on new day-care clients at a number of other facilities. Thus the total number of state assisted day-care openings was reduced by the SSBG cutbacks.

The Governor's budget for the coming state fiscal year has called for the closure of another nine day-care centers, which would bring the total number of state operated centers down to eight. The Department of Human Services is re-examining this proposal, however, because it does not believe that there are sufficient alternative facilities for the children who currently use the state run centers.

Staff Lay-Offs and Hiring Freeze

To compound the loss of $14.9 million in SSBG funds for the state fiscal year, the Department of Human Services sustained another $20 million in federal funding reductions in other service areas for the same period. In order to make up its overall shortfall of $34.9 million, the Department decided to reduce its payroll by laying-off employees and by slowing down the rate at which vacancies were filled.

The Department estimates that these personnel actions will save $9.2 million this year. Of this amount, between 15% and 25% or $1.4 to $2.3 million of the savings were due to reductions in SSBG funded staff. The Department laid-off between 145 and 196 people in the Division of Youth and Family Services, between 56 and 65 day-care workers (noted above) and approximately 125 central administrative staff in Trenton. (The different figures on lay-offs are due to differing estimates within the Department.)

Human Services also instituted a hiring slowdown in April 1981 and a hiring freeze on all but direct service employees in July 1981. Initially, Hudson, Atlantic, and Camden counties and part of Newark were exempted from the hiring freeze because of a high number of staff vacancies in those jurisdictions, but the freeze was extended statewide in April 1982.

Overall, the Department's staff lay-offs and hiring freeze have brought about a 4% to 9% reduction in each regional service area of the Division of Youth and Family Services. Department staff pointed to several side-effects from the hiring freeze and lay-offs. On the positive side, a few officials indicated that staff reductions caused the agency to be more efficient, brought about more innovative programming, and led the staff to act more responsively. One the negative side, several Department officials noted that staff reductions meant that existing caseloads are increasing substantially. Consequently, client problems cannot be handled as effectively or quickly as before. State officials also indicated that the personnel actions led to widespread displacements and frequent reorganizations, which demoralized many of the Department's workers. Finally, these officials observed that Civil Service procedures brought about the largest number of lay-offs among the lowest level staff members.

Reduced Training for Department Employees

The training division of the Department lost roughly $400,000 of its $1.9 million budget this fiscal year. Training funds are used to subsidize the education of Department employees and to help them develop more effective means of delivering SSBG services. The lion's share of the training reductions fell on the Division of Youth and Family Services.

Reductions in Alcohol Abuse and Family Planning Programs

The Alcohol Abuse and Family Planning Division of the Department of Health lost approximately $230,000 in SSBG funds this state fiscal year. Alcohol Abuse programs in Salem and Camden counties and a Youth Consultation Center in Jersey City were closed to help make up the shortfall.

Allocation of Child Welfare Funds for SSBG Clients

During fiscal year 1982, New Jersey received an increase of $5.6 million from the federal government for Child Welfare services. Because Child Welfare programs provide services similar to those provided under SSBG, the Department expects that these additional funds will help off-set the reduction of SSBG funds. SSBG clients will be served with funds available through the increase in Child Welfare monies. The Department will apply some of the $5.6 million surplus towards SSBG programs if it is unable to recoup the $14.9 million funding loss through other actions. Department officials cannot specify how much of the Child Welfare surplus they plan to use for SSBG services.

Additional Cost Savings and Service Reductions Must Be Implemented

The Department of Human Services can document that it has made up between $9.2 and $10.1 million of the $14.9 million shortfall during the current state fiscal year. This leaves $4.8-5.7 million of the shortfall unaccounted for. Department officials are confident that the accumulated future savings from the hiring freeze and lay-offs will make up the difference by June 30. If the personnel actions do not, then the Department will draw on some of its Child Welfare fund surplus. These actions will allow the state to get through the 1982 fiscal year--that is, through this June--without any more program cuts.

In state fiscal year 1983, New Jersey's SSBG allocation will drop by at least $4.2 million to $78.8 million. The state will offset this loss by cutting County Welfare office allocations, DYFS District office allocations, and SSBG contracts. Sometime after June, the state will ask county officials and DYFS administrators in each region to draw up plans for further cuts. The largest share of the cuts will fall on Purchase of Service contracts. County Welfare agencies will receive the smallest share of future cuts because they already had to cut their budgets once during state fiscal year 1982 by $1.03 million and during state fiscal 1983 by another $1.03 million.

Apparently, the future cutbacks will be guided by three criteria:

1. whether the program is life-sustaining or not;
2. Whether the program provides a direct service to individuals; and,
3. Whether there are available alternative services for the client.

According to these criteria, future program reductions would fall most heavily on counseling services, preventative health care, homemaker services, and day-care services. The Governor's state budget message called for the closure of nine state operated day-care centers, but the Department is re-examining its position and it is unlikely that these cuts will be implemented.

Although the precise size of the next year's funding reductions is unknown, it will be at least $4.2 million. It is likely that next year's cuts will have more significant impacts than the actions implemented this year. Next year's reductions will be made up through service reductions rather than through the administrative efficiencies that were practiced during fiscal year 1982. Unlike this year, it may not be possible to make-up program shortfalls through inter-program transfers and other off-setting devices. Funding reductions in the 1983 fiscal year will translate directly into reduced services for SSBG clients.

Federal Budget Reductions in Elementary and Secondary Education

In 1982 federal government support for elementary and secondary education in New Jersey dropped approximately $38.3 million from 1981 levels, according to figures released by the New Jersey Governor's Washington office. The bulk of this decrease is accounted for by cuts in three programs: Chapter I of the Education Consolidation and Improvement Act (formerly Title I of the Elementary and Secondary Education Act), which declined by $5.3 million; Chapter II of ECIA, which declined by $1.8 million; and the Child Nutrition programs, which dropped by $28.5 million.

Chapter I: Remedial Education Programs

In July 1982, Title I of the Elementary and Secondary Education Act will become Chapter I of the Education Consolidation and Improvement Act (ECIA). Chapter I programs serve economically and educationally disadvantaged students with remedial instruction in math and reading. Under the regulations governing the act, this special instruction is supposed to supplement, rather than replace, existing educational programs.

Local districts are responsible for designing individual projects under the Chapter I guidelines. Program funds are typically used to fund teachers for the special instructional activities or teacher's aides. Under the new law, local school districts are no longer required to serve those most in need of educational assistance. Also Parent Advisory Councils are no longer mandated.

Chapter I resources will decline during the forthcoming school year and probably beyond. In 1981, according to the State Department of Education, New Jersey received $77.1 million in Chapter I (previously Title I) funding. Chapter I funding will decline to $71.8 million in 1982 and is expected to drop to $68.2 million in 1983.

The impact of these reductions on individual districts varies widely. For example, Paterson and Bayonne will lose 7% of their Chapter I money ($574,000 and $49,360,respectively), whereas Cherry Hill and Wildwood will lose over 30% ($52,600 and $28,400,respectively). School districts are already planning to cut Chapter I teachers, teacher's aides, and classroom activities.

State Compensatory Education (SCE) is a program that is closely related to Chapter I. SCE is intended to serve educationally disadvantaged children. The table below, which combines Chapter I and SCE, reveals that from 1981 to 1982, both Chapter I and SCE declined. However, from 1982 to 1983 increases in SCE off-set decreases in Chapter I funding. The total spending for educationally and economically disadvantaged students in New Jersey will be greater for 1983 than it was for either 1982 or 1981, according to the most recent estimates issued by the Department of Education. The increases in SCE funds may off-set the federal budget cut in Chapter I and may postpone the local districts' need to react to Chapter I reductions.

State and Federal Spending for Chapter I and
State Compensatory Education, 1981 to 1983

Fiscal Year	Chapter I	SCE	Chapter I and SCE Combined
1981	$77.1	$68.5	$145.6
1982	$71.8	$60	$131.8
% change 81-82	-6.9%	-12.4%	-9.5%
1983	$68.2	$80	$148.2
% change 82-83	-5.0%	+33.3%	+12.4%
% change 81-83	-11.5%	+16.8%	+1.7%

Source: New Jersey Department of Education

Chapter II: Education Block Grant

Chapter II of ECIA brings together twenty-eight separate federally funded programs under one block grant. The programs can be divided into three broad areas: basic skills development, educational improvement and support services, and special projects. While the funds are allocated to the state for distribution, the law requires that at least 80% must be passed through to local education agencies. Federal funding for the programs consolidated under Chapter II dropped $1.8 million or 12%, from $14.9 million in 1981 to $13.1 million in 1982.

The New Jersey State Board of Education adopted a formula which rewards enrollment, performance on a basic skills index, district factor grouping, desegregation activities, and gifted and talented children activities in order of significance. Under this formula for distributing the Chapter II funds, 477 local education agencies or 80% will gain money this coming school year, whereas 119 education agencies or 20% will lose money. Under this plan, there will be three districts that gain over $100,000--Jersey City, Paterson, and Perth Amboy--and eleven districts that lose over $100,000. In general, school districts that were successful in the competitive grants process and therefore received many special purpose federal grants will lose money under the new formula. Within the districts that lost money, desegregation activities were hit the hardest, though some districts will attempt to absorb the costs of these programs with local resources.

Child Nutrition Programs

In New Jersey, the Child Nutrition program consists of an array of different services to help improve the eating habits of students and to subsidize or completely underwrite the costs of meals. The two largest programs are the school breakfast and school lunch programs. Child Nutrition programs received $61.5 million in 1982, for a decrease of $28.5 million or 32% from 1981.

Participation in Child Nutrition programs is down substantially from last year. School districts have eliminated 101 school breakfast programs that served 9,395 children for a decline of 20% over last year. School districts have also eliminated 226 school lunch programs or 9% of the total last year, and are serving 84,735 fewer children this year, for a 14% decline.

In general, there are three explanations for the decline in participation in the school lunch and school breakfast programs. First, changes in eligibility requirements and increased costs for meals discouraged children from participating. Second, thirty-five schools lost nutrition programs due to changes in program regulations. Finally, some parents refuse to comply with the regulations that require children to turn in their parent's Social Security numbers so that eligibility may be verified.

New Jersey State government has also reduced its contribution to the Child Nutrition program. In 1981, the State paid $11 million for student meals. This figure will drop 36% to $7 million in 1982. Total federal and state resources for Child Nutrition have fallen from $101 million in 1981 to $68.5 million in 1982. According to current estimates in the Department of Education, federal and state funding levels for Child Nutrition will remain at 1982 levels in 1983.

APPENDIX A

Background Tables on Survey of Local Government Officials

The Eagleton Institute of Politics conducted a statewide survey of local government officials during the months of February and March 1982. In counties, or cities, or townships the jurisdiction's administrator, manager, or financial director was interviewed. The survey included 80 jurisdictions: 19 of the state's 21 counties and 61 of the state's 67 municipalities with more than 25,000 residents in 1980. In addition, 9 detailed case studies supplemented these surveys. The case study jurisdictions were: the counties of Camden, Middlesex, and Passaic; the cities of Camden, New Brunswick, and Paterson; and the townships of Cherry Hill, Piscataway, and Wayne.

Table I. What budget adjustments, if any, have your community made this year as a result of federal budget cuts?

A. Laid-off government workers?

By Jurisdiction:

	Yes	No	Total
Counties	19 (100%)	0 (0.0%)	19 (100%)
Municipalities	33 (56%)	26 (44%)	59 (100%)
Total	52 (67%)	26 (33%)	78 (100%)

B. Implemented wage and benefit rollbacks?

By Jurisdiction:

	Yes	No	Total
Counties	1 (6%)	17 (94%)	18 (100%)
Municipalities	4 (7%)	57 (93%)	61 (100%)
Total	5 (6%)	74 (94%)	79 (100%)

C. Government services reduced?

1. By Jurisdiction:

	Yes	No	Total
Counties	13 (68%)	6 (32%)	19 (100%)
Municipalities	27 (46%)	32 (54%)	59 (100%)
Total	40 (51%)	38 (49%)	78 (100%)

C. Government services reduced?

2. By Municipality Population (1980):

Population	Reduced Services Yes	No	Total
84,000 and above	4 (67%)	2 (33%)	6 (100%)
63,000 - 83,999	3 (50%)	3 (50%)	6 (100%)
45,500 - 62,999	8 (67%)	4 (33%)	12 (100%)
37,000 - 44,499	4 (36%)	7 (64%)	11 (100%)
29,000 - 36,999	2 (17%)	10 (83%)	12 (100%)
28,999 and lower	6 (50%)	6 (50%)	12 (100%)
Total	27 (46%)	32 (54%)	59 (100%)

3. By Municipality Per Capita Property Wealth (1980):

Per Capita Property Wealth	Reduced Services Yes	No	Total
$24,000 and above	5 (33%)	10 (67%)	15 (100%)
20,000 - 23,999	3 (27%)	8 (73%)	11 (100%)
16,000 - 19,999	4 (50%)	4 (50%)	8 (100%)
10,000 - 15,999	6 (46%)	7 (54%)	13 (100%)
9,999 and less	9 (75%)	3 (25%)	12 (100%)
Total	27 (46%)	32 (54%)	59 (100%)

4. Jurisdictions which specified a service reduction:

	Yes	No	Total
Parks and Recreation	17 (40%)	26 (60%)	43 (100%)
Health Services	18 (42%)	25 (58%)	43 (100%)
Public Works	21 (49%)	22 (51%)	43 (100%)
Sanitation	11 (26%)	32 (74%)	43 (100%)
Fire	13 (33%)	27 (67%)	40 (100%)
Police	14 (33%)	28 (67%)	42 (100%)
Libraries	14 (33%)	29 (67%)	43 (100%)
Social Services	19 (45%)	23 (55%)	42 (100%)
Streets and Bridges	16 (37%)	27 (63%)	43 (100%)
Environmental Protection	7 (17%)	34 (83%)	41 (100%)
Arts	5 (13%)	35 (87%)	40 (100%)
Training and Employment	19 (45%)	23 (55%)	42 (100%)

D. Raise taxes?

By Jurisdiction and Population (1980):

	Yes	No	Total
Counties	7 (37%)	12 (63%)	19 (100%)
440,000 and above	6 (86%)	1 (14%)	7 (100%)
200,000 - 439,999	0 (0%)	5 (100%)	5 (100%)
199,999 and less	1 (14%)	6 (86%)	7 (100%)
Municipalities	25 (43%)	33 (57%)	58 (100%)
84,000 and above	4 (67%)	2 (33%)	6 (100%)
63,000 - 83,999	6 (100%)	0 (0%)	6 (100%)
45,500 - 62,999	2 (18%)	9 (82%)	11 (100%)
37,000 - 45,499	4 (36%)	7 (64%)	11 (100%)
29,000 - 36,999	4 (33%)	8 (67%)	12 (100%)
28,999 and less	5 (42%)	7 (58%)	12 (100%)
Total	32 (42%)	45 (58%)	77 (100%)

E. Government deferred capital spending projects?

By Jurisdiction and Population (1980):

	Yes	No	Total
Counties	6 (32%)	13 (68%)	19 (100%)
440,000 and above	4 (57%)	3 (43%)	7 (100%)
200,000 - 439,999	2 (40%)	3 (60%)	5 (100%)
199,999 and less	0 (0%)	7 (100%)	7 (100%)
Municipalities	22 (38%)	36 (62%)	58 (100%)
84,000 and above	1 (20%)	4 (80%)	5 (100%)
63,000 - 83,999	0 (0%)	6 (100%)	6 (100%)
45,500 - 62,999	7 (58%)	5 (42%)	12 (100%)
37,000 - 45,499	2 (18%)	9 (82%)	11 (100%)
29,000 - 36,999	5 (42%)	7 (58%)	12 (100%)
28,999 and less	7 (58%)	5 (42%)	12 (100%)
Total	28 (36%)	49 (64%)	77 (100%)

Table II. What actions, if any, should be taken by the state to respond to reductions in federal aid to your community?

		Yes	No	Total
A.	Relax spending caps?			
	Counties	10 (53%)	9 (47%)	19 (100%)
	Municipalities	41 (69%)	18 (31%)	59 (100%)
	Total	51 (65%)	27 (35%)	78 (100%)
B.	Increase state aid to local governments?			
	Counties	15 (79%)	4 (21%)	19 (100%)
	Municipalities	40 (68%)	19 (32%)	59 (100%)
	Total	55 (71%)	23 (29%)	78 (100%)
C.	Take-over services?			
	Counties	10 (53%)	9 (47%)	19 (100%)
	Municipalities	24 (41%)	35 (59%)	59 (100%)
	Total	34 (44%)	44 (56%)	78 (100%)
D.	Relax state mandates?			
	Counties	10 (53%)	9 (47%)	19 (100%)
	Municipalities	30 (51%)	29 (49%)	59 (100%)
	Total	40 (51%)	38 (49%)	78 (100%)

APPENDIX B

Statistical Tables to Accompany Section on the Public Service Employment Program

Table 1. New Jersey Prime Sponsor Allocations, Expenditures, and "Slot levels" FY 1981

New Jersey Prime Sponsor Areas	Original Allocations	Actual Expenditures after rescission	Slot* Levels
Atlantic County	$ 6,029,271	3,411,438	311
Bergen County	8,406,055	3,692,338	336
Burlington County	3,878,389	2,118,302	193
● Camden County	4,397,922	2,243,471	204
● City of Camden	3,631,077	1,712,231	156
Cumberland County	3,842,319	2,160,780	197
City of Elizabeth	3,334,831	1,742,422	159
● Essex County	6,867,283	4,132,385	377
Glouster County	3,256,841	1,846,192	168
● Hudson County	10,322,805	5,790,486	528
● Jersey City	5,997,413	3,727,038	340
● Mercer County	1,195,226	471,871	43
● Middlesex County	7,891,078	4,687,310	427
● Monmouth County	8,179,294	4,487,233	409
● Morris County	2,173,681	1,225,436	112
● City of Newark	13,602,823	7,203,970	656
Ocean County	6,504,705	3,628,316	331
● Passaic County	5,638,405	2,824,949	257
● City of Paterson	5,753,722	2,841,702	259
● Somerset County	1,076,168	566,664	52
City of Trenton	2,883,936	1,735,900	158
● Union County	6,672,324	3,140,739	286
Balance of State	7,014,004	4,394,279	400
	128,549,572	69,785,442	6,359

SOURCE: New Jersey Department of Labor and Industry

*The "slot levels" were computed by dividing the expenditures--minus 20% for administrative and other costs to the prime sponsors--by an average cost per slot of $8,780. It is important to note that these are estimates of the average slot levels; depending on turnover and other factors, the number of workers on-board will fluctuate above or below the slot levels. Also, while slot levels indicate how many positions were funded through PSE, the total number of persons who occupied these positions during FY 81 is much higher; again, turnover and other factors account for this. Indeed, 19,424 persons held the 6,359 positions at points during the year.

● Eagleton Sample Jurisdictions

Table 2. Rank Ordering of Sampled Prime Sponsorships by Yearly Cost of Absorbing PSE Participants at CETA Average Wage*

	Number absorbed by public sector	Percent of Employees on-board as of 3/31/81	Yearly CETA average wages	Yearly Cost to area based on CETA avg. wage
Newark	225	17.9%	$9,454	$2,127,150
Hudson County	234	16.9	8,825	2,065,050
Monmouth County**	201	33.1	7,940	1,595,900
Essex County	119	18.4	9,454	1,125,026
Jersey City	121	19.3	8,825	1,067,825
Paterson**	104	23.9	8,494	883,376
Camden County	97	25	8,660	840,020
Union County	78	19.5	9,851	768,378
Morris County	81	38.3	9,454	765,774
Mercer County	65	43	8,701	565,565
Somerset County	45	39	9,594	431,730
Passaic County	47	11	8,494	399,218
Middlesex County	41	7	9,393	383,883
Camden City	19	7	8,660	164,540
Totals	1,477	19.8%		$13,183,435

*NOTE: Estimates are based on CETA average wage. Actual employee wages are most likely higher.

**Estimated figures

SOURCES: Prime sponsor data. Average wage from Federal Register Friday, Sept. 26, 1980, Vol. 45, No. 189

Table 3. Rank Ordering of Sampled Prime Sponsorships by Amount of Public Service Wages Lost to the Area*

Prime Sponsor	No. PSE Emp. 3/81	PSE Lost to Public sec.	Average Wage	Service Wages Lost
Hudson Co.	1384	1150	$8,825	$10,148,750
Newark	1254	1029	9,454	9,728,166
Middlesex Co.	573	532	9,393	4,997,076
Essex Co.	646	527	9,454	4,982,258
Jersey City	635	505	8,825	4,456,625
Passaic Co.	423	376	8,494	3,193,744
Monmouth Co.	605	400	7,940	3,176,000
Union Co.	400	322	9,851	3,172,022
Paterson	410	330	8,494	2,803,020
Camden Co.	384	287	8,660	2,485,420
Camden City	234	223	8,660	1,931,180
Morris Co.	212	130	9,454	1,229,020
Mercer Co.	150	85	8,701	739,585
Somerset Co.	115	70	9,594	671,580
TOTALS	7,425	5,966	---	$53,714,446

*To analyze the magnitude of the service impacts due to the termination of the PSE program, the value of services provided by one PSE placement was estimated to be the salary of that PSE placement. Because PSE salaries varied by jurisdiction due to cost of living formulas, the average salaries for each prime sponsorship wereused as the basis of analysis. In addition, it was assumed that within each prime sponsor jurisdiction, a PSE placement provided an equal amount of services, independent of the type of service or program that the PSE placement was employed in (i.e. that a PSE placement working on road maintenance was providing an equal amount of services as a PSE placement earning the same salary but working in a senior citizen program).

SOURCES: Prime Sponsor data.
Average wages from Federal Register
Friday, September 26, 1980, Vol. 45,No. 189

Table 4. Average Cash Payment and Total Cost of Cash Payments of Unemployment Insurance, Public Assistance, Food Stamps, and Public Service Employment

	Low Estimate	Eagleton Estimate	High Estimate	Cost of PSE
Duration & program	14.9 wks UI	25 wks UI[a] 1 yr PA 1 yr FS	39 wks UI & 13 wks PA 1 yr FS 1 yr PA	1 yr PSE
percentage participating	50%	70% UI 15% PA 40% FS	90% UI/PA 30% PA 60% FS	6359[b] (slots)
cost per participant	$1,545	$2,593 UI 1,428 PA 493 FS	$4,432 UI/PA 1,428 PA 493 FS	$8,779
Total cost per participant	$8,605,078	$20,213,739 2,384,760 2,198,850	$44,419,184 4,759,520 3,297,782	$55,828,361
	$8,605,078	$24,797,349	$52,486,486	$55,828,361[c]

[a] UI, PA, and FS stand for Unemployment Insurance, Public Assistance, and Food Stamps, respectively.

[b] number of slots is used as the 18,977 terminations were possible through slots opening up.

[c] this total does not include administrative and fringe benefits costs.

SOURCES: NJ Department of Labor and Industry, NJ Division of Public Welfare, NJ Division of Unemployment Insurance , *Federal Register*, September 26, 1980, Vol. 45, No. 189.

Table 5. Estimated Loss of Tax Revenue within One Year Due to the Elimination of PSE*

Eagleton Estimate

70% unemployed for 25 weeks	$6,680,627
15% of unemployed on Public Assistance for one year	2,975,940
9.9% positive terminations (one year)	3,350,012
10% of job losers who are not expected to find jobs or receive any type of Public Assistance within a year.	2,021,774
Gross Loss in Tax Revenue	$15,028,353

Low Estimate

10% of job losers remain unemployed for one year	$2,021,774

High Estimate

All 11,134 job losers remain unemployed for one year	$19,850,474

*Estimates are based on the taxes that employees would have had withheld from $8,779.96 in 1981.

SOURCES: Tax estimates are from The Employer's Tax Guide, Publication 15, U.S. Department of the Treasury, Internal Revenue Service. Average PSE wages are from the Federal Register, Friday, September 26, 1980, Vol. 45, No. 189

Committee of Urban Program Universities
1346 Connecticut Avenue, N.W., Suite 228, Washington, D.C. 20036 202/387-2130

STATEMENT

Submitted to

THE JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

HENRY S. REUSS, CHAIRMAN

by

Jim Harrison, Executive Director

COMMITTEE OF URBAN PROGRAM UNIVERSITIES

August, 1982

Committee of Urban Program Universities
1346 Connecticut Avenue, N.W., Suite 228, Washington, D.C. 20036 202/387-2130

The Committee of Urban Program Universities (CUPU) appreciates this opportunity to respond to the President's Urban Policy report for 1982, and to register some of its impressions of that report with the Joint Economic Committee.

Our Committee's reason for being is to provide legislative and regulatory advocacy and analysis services in the interests of the urban universities--those institutions of higher education which are not only in, but also of the cities. Our 30 member institutions include public and private universities, large and small, located in, and rooted in, cities ranging all over the nation, from Boston to Atlanta, from Houston to St. Paul, from Omaha to Los Angeles. Our membership includes some of the nation's most prestigious institutions. And above all, they are linked by a common commitment not only to provide the people of their respective cities with educational services, but also to provide those cities with those other services which are particularly appropriate from universities.

CUPU was largely responsible for securing public support for the enactment of the Urban Grant University Act, also known as Title XI of the Higher Education Act. Title XI which became law in October of 1980, authorizes Federal support, in modest dimensions, to the activities of urban universities in offering applied research and related services to their respective cities, with a view to helping those cities meet their own specific problems. The urban universities, and this organization share, too, a common concern with the needs of the so-called "non-traditional" student, that near majority of the population of our universities who are outside the traditional college age, attending less than full-time, and otherwise fail to correspond to the popular--and bureaucratic--image of "the student". CUPU has worked, in close conjunction with other segments of the higher education community, in the continuing effort to protect education programs generally against current efforts to curtail the national investment in higher education.

Our response to the President's Urban Policy Report for 1982 can best be understood in the context of our own organization's assumptions about the city, about the university and about the relations between them and the nation.

This statement is necessarily a generalization, and may not be wholly subscribed to by all of the presidents and chancellors who make up the Board of this organization, but it does indicate the reaction of this organization as a whole.

The Committee of Urban Program Universities believes:

1. That the city is a natural human environment. We don't think of the city as some sort of temporary anomaly in the human condition. Cities, indeed, are among mankind's oldest artifacts, and they are an essential part of the mix we call civilization in whatever culture we find it;

2. That the city is a natural place for the university. It is true that in the American experience, some of our great universities were placed, quite deliberately, outside the perils, temptations and distractions of urban life. But in the wider view, it is accurate to say that the university began in Athens, was reborn in Paris and Padua and has grown to its greatest potential in cities girdling the globe;

3. That the first function of an urban university is the same as the first function of any university--to teach, and inseparably from teaching, to learn and to add to the total of human knowledge;

4. But, that the urban university has a vital second function--to be a citizen of the urban center in which it lives. We offer no criticism of those truly great universities, whose "constituency is the world", and whose location in a particular city is only incidental to its relationship to that wider constituency. But the subspecies of urban universities, we believe, must look to the specific needs--educational, cultural, research and service--or the cities and the people in whose midst they live; and finally, we believe

5. That the urban university cannot and should not expect to survive the collapse of the city--that the survival of both are bound together more surely than either sometimes sees--that the urban university cannot function amidst the uninhabited ruins of the city it existed to serve, but also that the city cannot know the fulness of its own potential if the educational/cultural complex that is crowned by the university should go down the drain.

Beginning from these premises, the urban universities must view with some concern the implications of the most recent Urban Policy Report. We are relieved to see that some of the more insensitive language of earlier drafts seems to have been expunged, and we hope that this may indicate a state of mind within the Administration more receptive to the needs and problems of the cities than the earlier drafts indicated.

But however it is phrased, the message of the Report still seems to be that the city must find its own answers to its own problems, or at the most look to the State Capitol for help; that the Federal Government's responsibilities are limited to defending the city against foreign invasion; and that the Federal Government's sole act of benevolence would be to lift from the city a "burden of taxes and regulatory excesses", which we are asked to believe are the primary reason for the city's problems.

We are told, further (and a tad more convincingly) that widespread and deep-rooted economic recovery will in and of itself alleviate all the serious problems of those cities that deserve to survive, and that we should simply wait for the operation of the President's Economic Recovery Policy and the inexorable working of the market economy, and that all will be well. The good cities will survive and prosper, and as for the others . . .

We search through the Urban Policy Report in vain for any suggestion that the survival and prosperity of our cities is an end to be actively pursued; that there is any degree of Federal responsibility, any room for federal activity, any reason for Federal investment, any grounds for Federal concern. We look in vain for any recognition that the Federal programs which have been in effect during the past generation have made any contribution at all. In fact, the Report suggests the contrary, that the efforts of Administrations of both parties, and the impact of legislation enacted by ten different Congresses have uniformly failed.

The authors of this Report evidently begin from the premise that the Federal Government is wholly incapable of doing anything well. One is tempted to wonder why an Administration so deeply and sincerely convinced of utter Federal incompetence would seek to vest any responsibility as fundamental as safeguarding the national security in such an incompetent instrument. Indeed, it seems hardly far-fetched to move from the Report's reliance on enterprise zones and "relief from taxes and regulation" as the panacea for urban problems to the thought that a 20th century equivalent of letters of marque and reprisal might induce Matson Lines to run a better Navy than the Feds have been able to do--or to the idea that more reliance on looting as a reward for the troops might encourage Wackenhut to give us an Enterprise Zone Army.

Yes, we laugh, but only because it hurts less that way.

Our organization evinced an early interest in the enterprise zone legislation, but confess to a concern over one of its operating premises, and we sense one shortcoming in the present drafts. We agree fully with those who have testified before this Committee to the effect that business and other private sector decisions about locating in or moving from a given spot are affected by a great many things other than the tax or regulatory "burden", and we are skeptical about the premise that a lifting of those burdens will in and of itself entice private sector enterprises into cities devastated by past economic and social decay, and helped not very much by the current pattern of economic and social "benign neglect". We think there are arguments which can be offered to support some optimism about the ability of some cities to attract new enterprise by a combination of tax and regulatory policies--and policies which will provide those industries with the sort of trained, productive labor force they also need to succeed. Annual shareholder meetings may be a feature of the traditional tax shelter states, but those meetings more often than not are talking about plants and installations that employ people in wholly different parts of the country!

We are concerned, too, that while some of the enterprise zone drafts that we have seen recognize that there are three elements to the society--government, business, and a third sector which is neither (and which includes education as a major component), the President's Report seems to be aware only of the business community and the government. We have examined the President's Report in some detail and have failed to find any serious discussion of the role the university can play in building, improving, rescuing, and revitalizing a city. Again, that role is not an innovation prescribed by Keynes--it goes back at least to Abelard's contemporaries, or even Aristotle's--safe enough distances from this error-prone twentieth century of ours!

Our organization believes most emphatically that the university has demonstrated, over a long slice of Western history, and in a wide variety of situations, that it is a major factor within the total urban environment.

It is difficult to conceive of a modern urban center without a university as a key part of its educational, cultural and intellectual structure. In fairness to the authors of the President's Report for this year, we have to say that the authors of previous reports, emanating from this and previous Presidents, have demonstrated an awareness of the business sector, and of the public sector, but have tended either to ignore the existence of the university as a separate and equally involved segment of the total urban community--or in other cases, have simply looked at it as wholly within the public sector. While many of the outstanding urban universities are clearly public agencies, many of them are not. And even the public university, created by a legislature and funded largely by tax revenues, is able to distance itself to a significant degree from the purely governmental sphere. The university, public and private, is a distinct entity. It is neither a governmental agency nor a business enterprise. To confuse it with either is to underestimate its importance to the urban community of which it is an important part.

This organization is less offended than disappointed by the President's Urban Policy Report. We are less dismayed by what he proposes to do, than skeptical that this formula will succeed by itself. We see in the Urban Policy Report less of hostility to the cities than indifference to them--and we believe strongly that it is flatly impossible for our national government to be at one and the same time, indifferent to our cities, and concerned about the prosperity and stability of our society.

We concur with what Mayor Coleman Young has said to your Committee regarding this very report:

> ". . .there can be no sound and lasting economic recovery until the cities are economically healthy and all geographic regions and economic sectors are on the road to recovery."

We concur with what Dr. Annmarie Walsh of the Institute of Public Administration told you:

> "It may be too late to be formulating a 'National Urban Policy' (emphasis added) at all. The issues at stake are fundamental issues of national development policy of jobs, of quality of life, of civilization. . .Urban problems cannot be confined within artificial boundaries."

We concur with what Mayor Charles Royer of Seattle, speaking for the National League of Cities, told you:

> "This urban policy was developed to justify the fact that the cities would pay the price for the radical new economic program. Since urban aid had to be cut, the policy denounces federal programs as harmful to the cities. Since the urban poor were destined to be set adrift, without training and without jobs, the authors chose to make a virtue of dislocation."

But perhaps none of these outside witnesses could so effectively and so scathingly characterize the tone of this report as it does for itself, in one of its examples of how the new Urban Policy will--for lack of a better word--"work".

> "Many cities have moved toward greater reliance on user fees for the financing of services, on the theory that the beneficiaries of a service should pay for it. The City of San Leandro, California, for example, requires a $2.00 fee for library cards for most users, but children and low-income residents are provided a card at no cost. Relying on such revenue sources has relieved some pressure on more traditional city revenue sources, such as property taxes. Moreover, it has made the full cost of the service readily apparent to consumers and may induce them to conserve. Moreover, it has allowed consumers to compare the services with private alternatives and to opt for the latter when they so choose." (President's Report, pp. 5-7).

If that paragraph, just quoted in full, without editing or deletions, means what it seems to say, we may understand that the Administration recommends to cities the advantages of a policy of charging for access to the public library--and that among those advantages would be less reading, and that what reading would remain would be confined to those who can afford to go to Brentano's. In (almost) the words of Marie Antoinette, "If the poor cannot afford library cards, let them watch TV."

Mr. Chairman, Andrew Carnegie, one of the giants of the age of unrestricted and highly concentrated economic power, is no one's comic-book stereotype of a fuzzy-thinking liberal do-gooder. But he did bestow a part of his enormous fortune on a large number of American cities to build free public libraries, in the thought that literacy was a good thing for the individual and for the city; and that economic need should not stand between people and those necessities of civilized life--knowledge and beauty. Now, in an Administration which would probably not find Mr. Carnegie an unacceptable role model, we find a policy extolled as providing the benefit (!) of reduced library patronage, and the joy of taxes on reading in lieu of taxes on property. The Committee of Urban Program Universities finds this an unacceptable paradigm of an urban policy.

8/12/82

The Members of the Committee of Urban Program Universities (and Board of Directors):

University of Arkansas at Little Rock--James Fribourgh, Acting Chancellor
Brooklyn College--Robert Hess, President
Cleveland State University--Walter Waetjen, President
University of the District of Columbia--Benjamin Alexander, President
George Mason University--George Johnson, President
Georgetown University--Rev. Timothy S. Healy, S. J., President
Georgia State University--Kathleen Crouch, Vice-President
University of Houston System--Charles Bishop, President
University of Illinois, Chicago Circle--Donald Riddle, Chancellor
Los Angeles Consortium of Urban Universities:

  California State University, Dominguez Hills--Donald Gerth, President
  California State University, Long Beach--Stephen Horn, President
  California State University, Los Angeles--James Rosser, President
  California State University, Northridge--James Cleary, President
  California State Polytechnic University--Hugh LaBounty, President
  University of Southern California--James Zumberge, President

University of Louisville--Donald C. Swain, President
University of Massachusetts/Boston--Robert Corrigan, Chancellor
University of Minnesota--C. Peter Magrath, President
University of Missouri, Kansas City--George Russell, Chancellor
University of Missouri, St. Louis--Arnold Grobman, Chancellor
University of Nebraska, Omaha--Del Weber, Chancellor
New Jersey Institute of Technology--Saul Fenster, President
City College of New York--Bernard Harleston, President
City University of New York--Joseph S. Murphy, Chancellor
New York Institute of Technology--Alexander Schure, President
New York University--John Brademas, President
Norfolk State University--Harrison Wilson, President
Northeastern University--Kenneth G. Ryder, President
Northeastern Illinois University--Ronald Williams, President
Old Dominion University--Alfred B. Rollins, Jr., President
University of Rhode Island--Frank Newman, President
Rutgers University--James Young, Provost, Newark Campus
Temple University--Peter Liacouras, President
Texas Southern University--Leonard Spearman, President
Virginia Commonwealth University--Edmund Ackell, President
Wayne State University--David Adamany, President

Associate Board Member:
  Representing the National Association of Independent Colleges and Universities--Daniel Perlman, President, Suffolk University

Board Members Emeriti:

  Dr. Werner Baum, Dr. Carlo Golino, Dr. James G. Miller

URBAN AND ECONOMIC ADJUSTMENT TO THE POST-INDUSTRIAL ERA

Donald A. Hicks
Political Economy Program
The University of Texas at Dallas

June 1982

Paper submitted to the Joint Economic Committee, U.S. Congress for the record of the hearings on the Administration's National Urban Policy Report.

July 13-15, 19-20, 1982
Washington, D.C.

Urban and Economic Adjustment to the Post-Industrial Era

Among the subtle tyrannies imposed by the calendar is the compulsion we feel every time a new decade rolls around to gaze across the landscape of the years ahead and "take stock" before plunging ahead. This is akin to the "stop, look and listen" response triggered as we approach a railroad crossing. Frequently--some would say, fortunately--little comes of this decennial ritual, and we settle back into familiar routines almost before the urge itself is spent. As the gates to the eighties were flung open, however, a number of events and eventualities commingled to justify an extra measure of caution from even the most surefooted among us.

Many of the nation's largest and oldest cities, long portrayed as being caught in a vice-like distress that could be alleviated, if at all, only by summoning sufficient political will and spending sufficient tax dollars, were continuing their relentless trek to lower levels of population and employment. Likewise, the nation's economy exhibited such a bewildering array of seemingly conflicting symptoms that traditional remedies were only half-heartedly administered since the aggravation of one symptom was certain to accompany the hoped for amelioration of another.

Fewer than 1000 weeks remained in the century. To generations of Americans for whom the depression of a half century ago was but an arrid historical event, American economic supremacy, rising levels of general affluence and the context of unprecedented growth which made it all possible were likewise being relegated to the history books. It all seemed to be coming apart. Building through the late seventies were the anxieties of countless Americans who sensed that the promises were becoming frayed and the dreams were clouding over. As the eighties had approached, and a general election along with them, the political response was predictable. Urban "revitalization," economic "reindustrialization" and spiritual "renewal" became the symbolic currency of the 1980 election--an alliance of backward-looking political responses formidable enough to make us wonder whether too many policymakers and political pundits were not traveling to work on subways while sitting on seats facing backwards. With medical metaphors stretched taut to help us embrace the enormity of the "ailments" afflicting two of the dominant and defining features of modern America--her cities and her economy--we were bombarded on all fronts with the supposed necessity of making one last stand to save our "dying" cities and resuscitate our moribund economy.

The crisis mentality which had influenced our thinking and tinkering in urban affairs for so long had infected at last our understanding of our economic problems. For an election year such mindsets are not without their virtues. They tend to quicken the pulse and deepen resolve; unfortunately, they do far less than we might imagine to help us understand the significance of the urban and economic crossroads we find ourselves at. As the 1980 election loomed, the task of nurturing noninflationary growth--economic recovery--began to be communicated as a need to "reindustrialize"--mistakenly suggesting to many some sort of retracing of steps back to the days when the cars we drove and the hopes we hoped for an ever more prosperous future were stamped "Made in the U.S.A."

Predictably, the circumstances that define urban and economic life in the U.S. have come to be treated more as matters of allocation than adjustment. This should not surprise us, though, for the role for public policy is grander in the former--that of leader--and more humble in the latter--that of shepherd. And so it was that following Reagan's landslide victory, taming the budget and strategies of capital formation eclipsed a larger concern for accommodating America's exit from a century and a half long industrial era with all that that passage implies for economic activity and its geographical locations.

THE TWIN TRANSFORMATIONS: THE CITY AND THE ECONOMY

The Industrial Era of the past century and a half had unfolded hand-in-glove with a period of massive and rapid urbanization. Indeed, the nineteenth century became the great city-building era of our national history. Economic transformations such as the exit from a centuries-long agrarian era have a way of sculpting in general terms the outlines of the new settlement systems that they require. Within the bounds set by the structure and organization of the economy and the technological capacities available, the individual and institutional preferences reflected in social and cultural life are free to leave their stamp and to provide the finer details for those settlements. The dense and compact arrangements within our older central cities reflect the viscissitudes and constraints imposed by the era in which they did experienced the bulk of their growth. What often comes as a surprise to many is that this process is a continuous, rather than a lurching and episodic one. In the past decade, our awareness of the growth in tandem of the population and the economy that had commanded the spotlight since World War II was rapidly yielding to an often grudging acknowledgment of the changing structure and distribution of the population and economic growth. The implications for where and how we lived and worked became more and more telling.

As the 1970s wore on, a phenomenal dispersal of the population and economic activity began to synchronize across several spatial scales. Reinforcing a now century-old process of suburbanization were two important developments. First, the long-term convergence among multistate regions continued to work itself out as a result of differential relative growth rates. The difficulty of deciding whether this constituted the "decline" of the Industrial Heartland or the "catching up" of historically peripheral regions--the South in particular--fueled intermittent regional squabbles in Congress and in the press. Second, for the first time growth rates in nonmetropolitan and rural areas exceeded those in metropolitan areas. Furthermore, this nonmetropolitan resurgence appeared to be taking hold in all regions of the nation.

In the aggregate, then, we were seeing a dramatic deconcentration of population throughout the urban system. As a result, these several trends operating synergistically were having an appreciable impact on the urban-industrial arrangements and mix of economic activities and opportunities bound to them that had prevailed since before the Civil War. Together these trends were now dealing the combination of blows to the larger pattern of urban settlement that had through the 1950s and 1960s been reserved for older central cities alone. Table 1 lists by region the major metropolitan areas of the nation. Between 1970 and 1980 fifteen of our largest and oldest metropolitan areas experienced net population declines. All are located in the Northeast and Midwest--the old Industrial Heartland. Table 2 reports the population trends over the same decade for the nation's central cities larger than a quarter million population. While selected central cities in all regions lost population, the pattern was most dramatic and pervasive through the Industrial Heartland. Finally, Table 3 reports the degree to which the central cities of the nation's major metropolitan areas gradually loosened their grip on the population of the metropolitan areas which they anchored. The declining proportion of the population in these central cities has been a pattern as uniform as it has been the predictable result of the way in which metropolitan areas are defined and grow.

- TABLE 1 ABOUT HERE -

- TABLE 2 ABOUT HERE -

- TABLE 3 ABOUT HERE -

Debates over the condition of the nation's industrial cities and the larger economy reveal certain similarities. Fearful of being thought to genuflect to existing economic and demographic trends and denying their aura of inevitability, we are more readily urged to seek their restoration than abide their transformation. Yet the difficulties besetting our nation's flagship cities and the larger economy are indeed better understood as transformations than as lamentable degeneration and decay. That the city and the larger economy are transforming is less problematic than our perception and reaction to these eventualities. Calls for revitalization on both fronts are animated by the urge to engineer a future that looks reasonably similar to what has gone before, if not to recapture the glories of the past. And it is the past, as Alvin Toffler reminds us in The Third Wave, which has a well-defined and entrenched political constituency which dwarfs that of those who seek to anticipate the future rather than back into it.

The nation's economy, like the gangling giant that it is, can be seen to be shifting its weight slowly from one foot to another--manufacturing to services--as the larger nation beyond the network of older cities itself emerges from the industrial era and is forced to adjust to new energy, demographic and technological opportunities and limitations. Still the most productive economy in the world, these structural adjustments leave the older muscle-bound manufacturing sectors not so much withering as receding to share center stage with a faster growing service sector. To be sure, as the economic center of gravity shifts, the effects are felt most acutely in older cities which are better wired politically than other places to sense and broadcast the painful adjustments accompanying their transformation. While the nation's economy is not yet service-dominated, increasingly our cities are. Yet, there should be nothing new or particularly disturbing about these cities being in the cross hairs of larger-scale adjustments. For as long as we have had cities they have always been required to make the bulk of such adjustments, though seldom out from behind the veil of overall national economic expansion as they have been doing in recent years.

Because there is inherent in the impulse to revitalize older cities a danger that the recovery of the larger economy will be imperiled, it is perhaps less important what we do about these difficulties than how we come to think about them. In both instances the results are worth waiting for, cannot be deferred and threaten to be unappreciated because of the considerable dislocations that are required during this period of transition.

This nation has a surprisingly well-developed conventional wisdom about her cities, what is happening to them and why and what needs to be done, that has been handed down over the decades largely intact--with additions, but seldom with substitutions. Not only have our more distressed cities been thought to be "dying," population and employment decline come to be considered unequivocably undesirable, concentrated development judged to be good and dispersed lower-density development ("sprawl") bad, but federal policy responses thought best are those which are well-funded and restorative. Well-intentioned candidates for national political office tirelessly pose for ritual photographs in the South Bronx in an effort to convince voters that the fate of urban America somehow hinges on what we allow to happen there. Suggestive of an urban Masada complex, these visual images prod us to resolve that it is in such desperate locations that we should take our stand against forces that would unravel our cities. It is against such a grim backdrop that the moral authority for these cyclical prescriptions for more targeted federal resources is highlighted. Seeing is believing. Unfortunately, much of what we know has become flawed by what we believe. Our perceptions of cities and their circumstances are often captured by misleading images and communicated with inappropriate metaphors. Believing is seeing. By 1980, it was time to challenge the conventional wisdom which was at the heart of a quarter century of federal urban policy. This was required not because it was known to be wrong, but because it had grown rigid, it stifled debate about issues long thought to be decided, and it promoted policies that were poorly articulated with the urban circumstances of the 21st century.

There is a sense in which cities as we perceive them simply do not exist, if indeed they ever have. For Americans, cities have served as pegboards on which we have hung any symbol or image that we wished. While at any one time a city is different things to different people, we do not easily permit a city to become different things to us over time. Yet, like it or not, the essence of a city is change; and since cities are constantly changing, the ways in which we view them should also be able to change. Today, without too much effort, the life which only older industrial cities once offered, can be lived nearly anywhere thanks to the accessibility-enhancing developments in transportation and communication. Though the communities in which we are embedded for work and play are scattered across a far-flung territory, they can be relatively easily stitched together at will when we either step out or "reach out and touch someone."

Though our industrial cities are fascinating amalgams of symbol and substance, in a strictly material sense the city never has been more than the physical trace of existing economic arrangements, technological capabilities and social preferences. As such, our older cities provide telltale evidence of the degree to which we have pressed back the limits of space, time, scarcity and prejudice while expanding accessibility across places and among peoples. Multistory factory buildings, large single family residences in segregated housing patterns, and the convergence of transportation routes to and from a central core all tell us more about the prevailing cost of energy, the state of the art in linking technologies and historical intergroup competition for city space at the time these cities experienced the bulk of their expansion than do they serve as inherent standards against which the form or function of tomorrow's urban settlements should be judged.

Today we are witnessing the gradual dissolution of the industrial era city as we have known it. What the notion of the city will be for the 21st century is being defined at least two decades early. The city is being redefined in the same sense and for the same essential reasons that new lifestages (e.g., preschooler, teenager, "swinging singles", and senior citizen) and household types (e.g., single parent and blended families) accompanied the maturation of the industrial era. Similarly, the transforming city is a predictable response to changing demographic, economic and technological realities. While the image of the city's form is etched into our consciousness, it is the city's functions that will always be its sine qua non. Recently that range of functions has been narrowing; in time its form will adjust to the new roles that cities will come to play for the larger society. That changes in city form are more visible than changes in city function and that the latter pace the former in the transformation process may trick us into responding inappropriately.

Older central cities are no longer the anchors of the national economy in the ways that they have been in the past century. As the industrial era recedes, cities which blossomed prior to World War II have been left behind as only one of several alternative sites inside and outside metropolitan areas for the productive activities of the nation. Cities are perhaps less usefully understood as places than as environments conducive to the flourishing of certain activities, and ever less conducive to the nurturance of others.

The city of the 21st century will still be of vital importance to the life of the nation, but it will step back to join the ranks of an increasing variety of places both peripheral to and distant from historical population and industrial centers. The industrial era did much to move the productive core of the nation's economy into the central city; today that core has fragmented into a handful of competing segments, and much of the nation's productive capacity and her people flourish outside the nation's large, and especially central, cities.

The future urban center will probably retain only a small range of the wide spectrum of manufacturing activity that was once located there. The maturation of production technologies and their historical locations will diminish the importance of goods production and enhance the prospects for the flourishing of the full range of services production. For this next act the city will need to exchange old props for new ones. Increasingly, the urban centers will be defined more so by who and what is left behind than by who or what is arriving. The transformed local economic base will reflect the outmigration of much manufacturing along with the blue and white collar work forces vital to the functioning of the factory. Retained will be those white and blue collar workers who are required to run and service the offices which define the expanded service economy. A new leaner municipal service package that is reconstructed and hopefully better articulated to the needs of the retained individual and corporate residents and temporary visitors to conferences, conventions and cultural events will have evolved. Limited upgrading of neighborhood housing and shopping areas in selected areas will be attractive to the narrowing range of middle class households who prefer life downtown, and will be discouraging to others.

REINDUSTRIALIZATION AND THE REAPPRECIATION OF MANUFACTURING[1]

Much of the impetus behind the call for reindustrialization can be traced to the characteristic ways in which structural changes in the nation's economy have been perceived. In a report prepared by the Senate Democratic Task Force on the Economy, it was estimated that the loss of U.S. competitiveness in a changing international marketplace translated into $125 billion in lost production and more than 2 million industrial jobs. In the past decade the U.S. share of the world market shrank by nearly a quarter.

The often distinct fates and fortunes of the handful of major segments into which the larger national economy has evolved, nearly belies the tremendous interdependence that characterizes the larger economy. Particular consternation has been generated by the seemingly irrevocable decline of manufacturing as a proportion of total employment. This despite the fact that even this hard-pressed segment of the economy continues to grow, albeit at a slower rate than it did historically. Not only has manufacturing output nearly tripled in the last three and a half decades, but employment has increased by a third over the same time span. This pattern of output pacing employment generation indicates rising levels of productivity. Even though nine of ten new jobs since the mid 1970s have been in the services, one of five American workers is still employed in either direct or indirect production in manufacturing industries. Thus while much of the dislocation associated with the transformation of the larger economy is centered in the manufacturing sector--especially the automobile industry which accounts for one of 12 manufacturing jobs--and while employment growth rates in the service sector eclipse those in manufacturing, we cannot easily equate economic growth with economic health, nor can we assume that the heady expansion of the service sector diminishes in the least the importance of manufacturing now or in the years ahead. Discussion of the passing industrial era should not blind us to the enduring importance of the manufacturing sector whose adjustment involves slower rates of growth, not absolute decline.

PRODUCTIVITY DECLINE AND ECONOMIC RESILIENCE

The U.S. economy is the most productive in the world despite the fact that our growth rate of labor productivity lags behind those of several other industrialized nations. In the century prior to the 1973 oil embargo, the average growth rate of productivity was about 2.4% per year. Against that historical background, the 3.2% rate realized between 1948 and 1965 after emerging from World War II the world's dominant superpower looks to be not only an historical anomaly itself but also an overly severe standard against which to judge the more recent performance of the nation's economy. Nonetheless, the 0.6% average growth rate of the last half of the seventies looks puny indeed and cannot fail but catch the eye of even the most casual observer. Yet, as to what it might mean, that is a different matter.

Ironically, this recent preoccupation with declining productivity has served for many as ample evidence of the palsied and arthritic condition of our national economy. Too often obscured from view is the fact that in several of our most beleagured industrial sectors (e.g., steel) labor productivity is still the highest in the world thanks largely to shifts within the industry itself. Older steel plants have been increasingly automated and newer smaller plants have emphasized the production of speciality steel. The capital requirements for shifts of this sort may be a far more sensible focus than productivity itself as the nation seeks an economic recovery.

Wisely, when dealing with adult human beings we equate health with resilience and endurance rather than with rate of growth; perhaps we should do the same when evaluating the economy. A case can be made that if anything our national economy has shown a remarkable agility in responding to all manner of disturbances since 1965 even though it failed to grow very much. Of particular significance has been the ability of the national economy to absorb unprecedented millions of new labor force entrants who have been entering with higher levels of education, but low skill and experience levels. The building shock waves of the baby boom and the entry of millions of women into the labor force reversed the labor scarcity of previous decades and encouraged the substitution of labor for capital. With that ad hoc substitution came dampened labor productivity. Still, even though the labor force expanded an average 1.3% per year between 1973 and 1979, the rate of growth of capital stock only slowed--it did not decline.

Viewed from another perspective, as the relative price of energy increased through the latter 1970s, the substitution of labor for energy was the predictable consequence. Thus while labor productivity declined, energy productivity increased. The greater significance of labor costs as compared to energy costs when considering the total of production costs diminishes the importance of this increased energy productivity to be sure. Nonetheless, the larger point is that even while increased energy productivity only partially compensated for reduced labor productivity, it did cushion somewhat the economy's wrenching adjustment to skyrocketing energy prices. The entire later half of the last decade witnessed the wringing out of many of the most energy profligate industries; some of those adjustments necessitated a period of lowered labor productivity to compensate for the rate at which new energy price levels were escalating.

As demographic metabolism proceeds and the bulge of new workers wends its way through the labor force, the relative cost of labor in post-Baby Boom cohorts will likely begin to rise again, the growth rate of capital stock should pick up, and the productivity increases historically realized through the substitution of capital for labor should return. The introduction of robotics into factories will continue to be accompanied by the introduction of word processors and "smart" appliances into offices. Therefore, such a responsiveness by the nation's economy to rapidly changing relative costs and supplies of factors of production may have limited labor productivity in the short term, but it did so while at the same time providing new jobs at record rates and conserving energy. It may be important not to overlook evidence of such resilience when diagnosing and prescribing for a slow-growth economy.

Beyond this, however, not only may the decline in rates of productivity be overly emphasized as the crux of our economic problem but higher rates of productivity may not be much of a solution. Indeed, some have suggested that our problems will not be solved by simply being more productive, since we may have reached the upper limit in some cases beyond which it is unrealistic to expect to squeeze more productivity out of the economy by simply increasing capital equipment. The reason for this relates to the organization of industry today. The proportion of workers engaged in direct production has dropped so rapidly during the late industrial era, and the proportions of workers shifted to overhead and support roles has increased so rapidly, that increasing the efficiency of the former group probably cannot be accomplished fast enough to counter the drag effect of the latter group. It may be the organization of productive activity itself more so than the ratio of capital to labor that bogs down our efforts to increase our industrial efficiency.

Finally, our flirtation with productivity as an economic cure-all needs to be conditioned by consideration of its impact on employment. As the experiences of older mainline manufacturing industries such as automobile and steel illustrate, difficult adjustments to stronger international competition have resulted in greater productivity on the factory floor. Part of the price paid for this adjustment has been the creation of legions of employees who have been rendered obsolete, redundant and expendable. Increased productivity is certainly desirable, but it must be part of a larger process wherein capital is directed not only to reorganize and retool mainline manufacturing but also to stimulate business expansion and creation to ensure that the larger transformation generates new jobs as it eliminates older ones. In the chorus for reindustrialization there are many voices; when the call for greater productivity drowns out these other voices, their song may no longer be worth listening to.

THE REAGAN ADMINISTRATION'S "SHADOW" URBAN POLICY

There is a sense in which the fate and fortune of urban America is no longer tied so closely as it has been historically to the fates and fortunes of her older cities. Residential preferences as well as the locus of business births and expansions increasingly favor locations peripheral to, or at considerable distance from, existing metropolitan areas. In the past decade several of our largest metropolitan areas declined in population for the first time; further, nearly 60% of new manufacturing growth between 1962 and 1978 was found in nonmetropolitan areas. As with most changes besetting the nation in recent decades, these realities are mixed blessings wherein the disadvantages are more easily discerned than the advantages.

The circumstances that define our national system of settlements are far too diverse to be easily comprehended with generalizations; yet it is safe to say that urban America--its capital, jobs, people, income and innovative capacity--has been spreading out for decades. Just as clearly the thinning out of our larger, older, more compact and central urban settlements have been accompanied by the reconcentration of wealth, vitality and optimism in new central locations at the periphery of older metropolitan areas and in regions peripheral to the older industrial heartland of the Northeast and Midwest. The new urban America, no longer conterminous with the nation's old network of industrial cities, does not have less vitality than before, but the nation's older industrial cities do. Unfortunately--though predictably--there has been little political support forthcoming for the greater appreciation of these social and economic developments.

As the second year of the Reagan Presidency unfolds, not only have we not heard an explicit urban policy enunciated, but we can be fairly certain that one will not be. This is consistent with the newly prevailing view in many quarters that the federal government should pay more attention to assuring that national economic growth takes place at all than that it takes place in specific, historical locations. In short, the proffered federal initiatives which promise urban implications do not constitute an urban policy at all, but rather bespeak a more general commitment to a program of economic recovery and revitalization. Thus, stability and predictability in our monetary policy, easing of the burden of federal mandates on localities and regulations on business, a disciplined budget through spending cuts as a precursor to a balanced budget, and tax cuts for businesses and individuals are believed to provide the more potent remedy for all manner of urban distress than religious reliance on traditional place-specific policies and programs from urban renewal to community development block grants that have accumulated since the early 1960s.

The Reagan Administration's economic recovery program might well be viewed as the de facto urban policy for the rest of the century. The two major tax reduction proposals--a hefty cut tilted toward higher income households to be phased in over three years, and accelerated depreciation schedules for business--promise to return untold billions to individuals in after-tax disposable income (estimated by loyalists to be 1/4 trillion dollars before the next Presidential election in 1984!) and after-tax returns on investment for business.

Lurking within these supply-side economic theories, political values and sentiments for limited government, and rosy scenario taxing and spending projections are the makings of a "shadow" urban policy the likes of which we have not seen since the federal government first assumed a major responsibility for the nation's cities and those who reside in them during the Depression.

This shadow urban policy implies that we must be able to produce wealth before we can redistribute it; that in a transforming American economy, all places, not just places of historical importance, are able to contribute to aggregate national growth and productivity; that shifts in people, jobs, capital and income out of older cities and even entire regions should not necessarily be resisted since they raise the wealth of the entire nation, enhance our international competitiveness, save jobs for the nation, inhibit inflation, as well as create new larger scale urban entities that have enhanced economic, if ever less political, integrity.

Further it suggests that the best way to relieve distress in our older and larger settlements is to not overreact to the transformation of local and regional economies and the shrinkage of certain local populations and economic bases. "Health" at the local level may well be expected to be achieved at new, often lower levels of population and employment. The emphasis is being shifted away from federally-prompted subnational development efforts and toward national economic policies that have as their aim the creation and maintenance of an attractive investment climate conducive to steady and long-term economic growth, higher rates of job creation and low rates of unemployment and dependence.

Wary local officials across the land decry the intention of seeking traditional urban policy goals via economic policy charging that it is naive to think that overall national economic vitality will automatically redound to the benefit of specific local economies. In this they are largely correct. The shadow urban policy of the Reagan administration contains in it no guarantees that the locus of restored economic vitality will be or can be the nation's historic urban centers. Given that the health of all places is ultimately dependent on the health of the national economy, economic policies that entail inadvertent and unavoidable antiurban impacts (e.g., accelerated capital recovery programs and business tax cuts) may be preferable to those which make the strength of the national economy secondary to or the implied sum of the strengths of specific local and regional economies. If the city is to be "fixed", it will be "fixed" as a consequence of the same market economic and demographic forces that led to its having been "broken". The probable efficacy of a more interventionist federal political economic role in that process is too easily overstated, oversold and ultimately believed.

URBAN ENTERPRISE ZONES: AN INNER-CITY STRATEGY FOR THE EIGHTIES?[2]

And so it is that the nation appears to be opting for urban revitalization by means of national economic revitalization rather than vice versa. It is somewhat curious, then, that to date the only explicit urban policy initiative that has received limited Administration backing has been the notion of an urban enterprise zone. While it is still too early to tell whether this is not simply the latest in a long line of place-sensitive anti-distress remedies whose ability to garner political support from politicians will exceed its ability to achieve its longer-term intended economic results, it does appear that we see for the first time an administration differentiate its implicit urban policy intentions from an explicit inner-city strategy.

The enterprise zone concept is essentially the free trade zone notion which flourishes in the Far East rewrapped as a British import that on its home turf is relatively recent in origin. It has been heralded in recent months as embodying precisely the blend of free enterprise mechanics and targeted focus that is needed to achieve political consensus between conservative economic advisors and turf-conscious politicians. Touted as the unassuming--albeit lean and one-legged--centerpiece of the Reagan era shadow urban policy, it is curiously enough both supply-side in theory and surgical in implementation. However, despite its ideological acceptability and its "fit" into the intellectual lineage of place-specific policies since the late 1960s, upon closer examination of the enterprise zone, there may be less there than meets the eye.

The premise is that jobs so desperately needed by inner-city residents--particularly poor youth lacking readily marketable skills--do not exist because the enterprises that have traditionally generated them--particularly small businesses--have been suffocating under the combined weight of regulations, zoning restrictions and taxation. The proposed policy response is the reduction of the differential cost of doing business that exists between the targeted neighborhood and nearby alternative locations. The policy levers to be pulled would include reduction of property and business taxes and Social Security deductions; suspension of regulations requiring a whole host of building codes, permits and licenses; and curtailment of the restrictions imposed by zoning ordinances. The goal is to create a zone sanitaire within which existing enterprise will be encouraged to stay, new enterprise will be encouraged to germinate and the supply of housing--particularly rental units--will not be artificially dampened.

The idea has merit. It correctly draws attention to the considerable disadvantages of doing business in most older central cities, and it has as its principle objective the creation of jobs. It is even more attractive in that it invites active participation of state and local governments in the generation of private sector, rather than public sector, employment. However, there are some nettlesome implications that we might well consider. No one implication is necessarily a fatal flaw; taken together they may rein in any unbridled optimism about the potential for the success of the urban enterprise zone concept.

For all the delicate chemistry of substance and symbols, the notion of an enterprise zone should receive far closer scrutiny than it has thus far. The concept may represent much less of a break with the past than is now thought. Indeed, the enterprise zone concept may be simply the logical and latest "next step" in a succession of place-oriented urban policy concepts that overemphasize the necessity of achieving specific policy outcomes in specific places. While the details of Anglo-American cross-cultural transplantation have not yet been fully worked out, the cautions that are advised here are not those that stem from such difficulties. Rather, we would do well to ask a more fundamental question. Does the adoption of this kind of "surgical" place-oriented public policy discount at its peril the fact that the fates and fortunes of specific places will--and probably should be encouraged to--fluctuate over time? The nation should be cautioned to understand that cities must be permitted to reflect changing technological capabilities and social circumstances, rather than be constrained by an attempt to preserve under glass any particular historical combination of them.

The strength of cities is tied to their ability to reflect and accommodate change, not fend it off. Expansion and contraction are unavoidably arrayed across the geography of city centers and their satellite neighborhoods and are the inevitable local accompaniments of a transforming national economy and society. While we may wish that this were not so, we should have learned by now to pause before making official promises that it can be otherwise.

Despite its well-intentioned focus on business nurturance, the enterprise zone concept overemphasizes the role of economic factors and underemphasizes the role of essentially noneconomic factors that contribute significantly to the rather amorphous and much ballyhooed notion of "business climate." This may well be more of a concern for the larger established firm serving regional or national markets than it is for the smaller enterprise whose locational options are more constrained. Nonetheless, factors such as fear of crime, congestion, limited accessibility, lack of widely diversified support services during and after the workday, and ease of parking are all factors which influence the attractiveness of doing business in a particular area.

The "greenlining" envisioned has as its principle aim the nurturance of small businesses. While it may be true that small businesses are the main generator of new jobs in our economy, they are also the most likely to falter. The precariousness of their existence is due to many factors beyond the costs of doing business including inexperienced management, dependence on diversified labor pools and hypervulnerability to swings in the national economy. Since small businesses come in so many shapes and sizes and their needs are so diverse, they often are the most difficult to assist through governmental bureaucratic actions--surgical or otherwise.

Emphasis on rewriting codes, regulations, and tax policies may be evidence of having assigned undue importance to what government does or can cease doing. It is more likely that the absence of sufficient jobs in a particular area is attributable to larger-scale structural changes in local, regional, national and international economies. Changing technological requirements in the production and marketing processes may outweigh public policies (zoning, regulation, taxation) in explaining why older local businesses have closed their doors and business expansion has occurred in other locations. Further, the majority of businesses in the U.S. are small, and many make only a slim profit, if any. More favorable tax treatment of enterprises whose tax liability is miniscule in the first place will not be much of a boon.

The notion of an enterprise zone is the ultimate example of our belief that we can target and treat a jurisdiction--albeit ad hoc in this case--as a self-contained entity, relatively isolatable from its social and economic moorings. Any chance for sustained economic and social health is substantially reduced the longer the rules of the market economy are suspended in deference to the remedies of the political economy. The promise of steady, sustained vitality of a designated enterprise area is dependent on the manner in which the rules that apply to everyone else are eventually reimposed. There may be an inevitable temptation to delay the long-term social and economic integration of the enterprise zone with the larger community and postpone the reexposure of the area to the market forces that apply to it.

Experimentation of this sort within a bounded territorial unit may underemphasize the fragile bonds of interdependence that exist with surrounding neighborhoods. Ironically, businesses in nearby distressed areas that have not been designated as enterprise zones may be encouraged to relocate under the protective canopy of suspended market rules and government regulations and thereby leave a trail of lost jobs and associated social costs in their wake. The net effect would be the simple redistribution of opportunity, rather than the creation of it. Relationships disrupted within the zone may cause undue hardship on areas just beyond the boundaries of the zone. We underestimate the systemic character of the local urban economy at our own peril.

Regrettably, the urban enterprise zone concept does little to sensitize local officials to the need for "planned disinvestment." There is little incentive to develop policies to help older industrial communities, in particular, adjust to long-term population and employment declines derivative from larger patterns of regional change and the transformation of central city economies. It delays the development of a local politics of shrinkage and contraction and postpones the day when local public officials can finally dare to encourage discussion of how their community might work to scale down with a minimum of civic anxiety and pain. While shifts in assignment of certain traditionally public services (sanitation, security, fire) to the private sector are sometimes conceived of as an accompaniment of the urban enterprise zone strategy, the political temptation to have a distressed neighborhood designated an enterprise zone rather than be a candidate for purposeful disinvestment in redundant and expensive public service infrastructure (water and sewer branches, traffic control, street lighting) may also be as overwhelming as it is regrettable.

Identifying areas for designation as potential enterprise zones will almost surely proceed according to political dynamics rather than for reasons having to do with any realistic expectation that the building blocks of a revitalizable area are in place. "Worst-first" strategies are all too often the response to the urgent political requirement that public monies, however limited, be spent where circumstances are the most dire; sacrificed in the process is the more economically rational logic that public monies be spent where they have a reasonable chance of doing the most good...in places showing incipient rather than advanced decline. Such is the familiar fate of preventative measures. We must add to this the confession that our knowledge concerning what makes a location a likely prospect for reclamation and rejuvenation is sketchy at best.

The explicit and implicit "place" orientation--while it makes sense politically may make little sense economically or socially. The historical decline of the significance of "place" is a condition of modern society that we have difficulty building into our analysis of public policies and our conduct of political affairs. Remedying presumed deficiencies in places for the sake of remedying disadvantages facing people may be an indirect policy strategy that encourages unwarranted faith in the logic that aid to distressed places benefits distressed people. Our understanding of the linkages and causal chains in local economic development is rudimentary at best and may even be less trustworthy the smaller the areal unit that is our focus and target.

The urban enterprise zone notion is not immune to the charge that it is a quintessential example of "social engineering." For some, the suspension or weeding out of regulations, lowering of taxes, and the like, will suggest a reliance on a less fettered market process. For others, it will be viewed as the creation of a climate for business that is artificial and unable to be supported by the operation of the larger urban economic and political system. Inner-city business climates have evolved and costs of business and residence are likely as they are for reasons having more to do with the opportunity and necessity associated with larger-scale technological and economic change than with manipulable public policies. Urban enterprise zones conceived of as economic fantasy islands may simply delay the impacts of market forces and power shifts rather than assist a community to adjust to withstand their impact and survive and even thrive.

Areas that are targeted for designation as urban enterprise zones are likely in the process of evolving to the point that they can perform new functions for the larger community. This process is consistent with trends in countless central cities which are transforming to play equally vital, if narrower, roles for the larger region. The building construction boom in many of our older downtown areas attests to the fact that we are between acts in an urban historical drama of epic proportions. Also, as may always be the case, there will be difficulty knowing to what extent the outcome induced by public intervention really differs from what would have occurred in its absence. That such intervention may disrupt a process that would have yielded directly a more easily sustained economic activity than that yielded indirectly is a possible and likely outcome. If it makes sense to suspend some aspect of governmental presence because it dampens job creation or economic growth, then we should consider suspending it entirely and disavow the search for advantages for some communities relative to others.

Like all similar forms of government intervention, the implementation of the urban enterprise zone as a cornerstone in any federal urban policy may raise unrealistic expectations about what can be accomplished in the long run. Political strategies of this sort are often judged more by the promises made to gain support for them than by more reasonable criteria. Above all, responsible policy actors in coming years must resist the temptation to promise more than government in the past has shown the capacity to deliver.

The enterprise zone concept has embedded in it a logic of special concern for those who study the special fates of people in special places. Implicit is the commitment to respond to the plight of the urban underclass by job generation in-place. Yet uncritical reliance on an inner-city strategy of this sort deflects interest in the positive aspects of encouraging and facilitating the mobility of unemployed or underemployed workers. On a larger scale this is important because the mobility of labor is restricted in ways that the mobility of capital and the jobs it creates are not. While we should have no illusions about the universal relevance of relocation to the plight of the unemployed and unemployable in our inner cities, we humble our best intentions when we fail to appreciate that "people-to-job" sequences, more so than "jobs-to-people" policy strategies, have played the major role in linking individuals and households to economic opportunity in our recent and distant past. At the same time, while we may be properly skeptical of finely-tuned local economic development strategies that seek to create jobs or lure them to where people who need them live, we should take care not to replace one myth with another. Jobs and a better life do not await everyone at journey's end. The linkage between distressed people and distressed places can be unraveled not only by reducing the barriers to mobility that hinder some, but by assisting people to increase their relevance to the local and regional job markets transforming around them. Where retraining and relocation assistance fail to make inroads into the circumstances that enmesh the urban underclass, then a sensible blend of social welfare policies should be available as a last resort. All manner of "bootstrap" theories aside, there will continue to be an intractable portion of the urban destitute for whom employment as a linkage to the economy is not feasible. Their welfare and dignity will continue to be assured only by the safety net about which we have heard so much in the past year.

THE FEDERAL ROLE IN A NEW URBAN AMERICA: A SUMMARY

The restructuring of the nation's economy throughout the 20th century has been accompanied by (and has even required) the shifting of local and regional economic bases throughout the land. The bulk of what we have experienced as "urban" and "welfare" crises in the past two decades are the consequences of this economic transformation. Much of this restructuring has occurred in response to technological developments for which we should be thankful in large measure. Much has also been in response to a restructuring international economy which ever prods us to remain responsive and flexible while it expands opportunities for consumers in other countries to consume our goods and services. The price of no longer being insulated from the building competitive pressures of the international marketplace includes the bracing realization that historical urban places must often exchange an older range of functions for newer, if more limited ones. Likewise, newer urban forms, even long denigrated ones such as "sprawl" itself--along with the values with which we have propped up our stated desire for more concentrated arrangements--will command our recognition as well as our respect. In both form and function, neither Rome nor New York nor Detroit are eternal after all. Finally, our very notions of social welfare, and how we may ensure some acceptable minimum for all people may have to transform to reflect the changing promises and problems presented by the passing of the industrial era.

In the end, as we consider what the national governmental response should be to the evolving industrial economy and the industrial cities which used to house its main engines of growth, we must ask ourselves whether or not the best transition policy might be something other than a spatially sensitive urban or regional policy that proceeds by playing off regions and localities against one another. Perhaps a better transition policy is a sensible blend of macroeconomic and social welfare policies whose goal is to insulate people primarily, rather than places, from the coming changes. Increasingly, our political organization is mismatched to the scale of our economic life. Perhaps once again we will be concerned more with the functioning of the national economy and the access of our citizens to it than with first translating those responsibilities into an endless series of anachronistic spatial conflicts.

In any event, the variety of perceptions of the economy and the city that have been translated into public policies illustrate our inability to let go of increasingly inappropriate settlement patterns and economic arrangements that are being rendered obsolete. Despite the fact that evidence exists for the continuing responsiveness of the economy and the demography to each other and to technological innovations--if less clearly to our explicit public policies devised to influence both--it is becoming clear that the standards necessary to anticipate and judge the emerging urban-postindustrial arrangements will have to be different from those of the waning urban-industrial era.

Footnotes

[1] The author gratefully acknowledges the research assistance of and helpful discussions with Ms. Bahar Norris of the graduate program in Political Economy at The University of Texas at Dallas.

[2] This section is heavily dependent on testimony "An Inner-City Strategy for the Eighties? Urban Enterprise Zones" in hearings before the Senate Subcommittee on Intergovernmental Relations, February, 1981.

References

"American Renewal," Fortune, March 9, 1981, Pp. 71-101.

"America's Restructured Economy," Business Week, June 1, 1981, Pp. 55-100.

Forrester, Jay W., "Why More Productivity Will Not Solve Our Problems," Business and Society, Fall, 1980, Pp. 10-18.

Hershman, Arlene and Mark Levenson, "The 'Reindustrialization' of America, Dun's Review, July, 1980, Vol. 116, #1, Pp. 34-43.

Hicks, Donald A., "Place-Sensitive Public Policies in the Eighties." Testimony before the Joint Economic Committee, U.S. Congress, in hearings on The Economic Report of the President: Regional Balance and Economic Policy, January, 1981.

Office of Technology Assessment, U.S. Industrial Competitiveness: A Comparison of Steel, Electronics, and Automobiles, Washington, D.C., 1981.

Pascarella, Perry, "The Case for Industrial America," Industry Week, Jan. 12, 1981, Pp. 51-58.

President's Commission for a National Agenda for the Eighties, Urban America in the Eighties: Perspectives and Prospects, 1980.

"The Regional and Urban Impacts of the Administration's Budget and Tax Proposals," Joint Economic Committee, U.S. Congress, July 31, 1981.

Report of the Subcommittee on Industrial Policy and Productivity, Senate Democratic Task Force on the Economy, (mimeo), August 4, 1980.

"Revitalizing the U.S. Economy," Business Week, June 30, 1980, Pp. 56-105.

Schmid, Gregory, "Productivity and Reindustrialization: A Dissenting View," Challenge, January-February 1981, Pp. 24-29.

Schwartz, Gail Garfield and Pat Choate, "Revitalizing the U.S. Economy: A Brief for National Sectoral Policies." Academy for Contemporary Problems, Washington, D.C., 1980.

Stanfield, Rochelle L., "Economic Development Aid-Shell Game or the Key to Urban Rejuvenation?" National Journal, March 21, 1981, Pp. 494-497.

Toffler, Alvin, The Third Wave. Morrow, New York, NY, 1980.

Table 1

1970-1980 Population Trends for Metropolitan Areas over 500,000 By Region

Metropolitan Area	1980 Population	1970 Population	Percent Change 1970-1980
Northeast			
New York, NY-NJ	9,080,777	9,973,716	-9.0
Philadelphia, PA-NJ	4,700,996	4,824,110	-2.6
Boston, MA	2,759,800	2,899,101	-4.8
Nassau-Suffolk, NY	2,603,817	2,555,868	1.9
Pittsburgh, PA	2,260,919	2,401,362	-5.8
Newark, NJ	1,963,600	2,057,468	-4.6
Buffalo, NY	1,241,434	1,349,211	-8.0
Rochester, NY	970,313	961,516	0.9
Providence-Warwick-Pawtucket, RI-MA	917,962	908,887	1.0
Albany-Schenectady-Troy, NY	794,298	777,977	2.1
Hartford, CT	726,036	720,581	0.8
Syracuse, NY	642,547	636,596	0.9
Allentown-Bethlehem-Easton, PA-NJ	637,109	594,382	7.2
Northeast Pennsylvania	629,912	621,882	1.3
New Brunswick-Perth Amboy-Sayreville, NJ	594,984	583,813	1.9
Jersey City, NJ	555,483	607,839	-8.6
Springfield-Chicopee-Holyoke, MA	530,373	541,752	-2.1
Midwest			
Chicago, IL	7,057,853	6,974,755	1.2
Detroit, MI	4,344,139	4,435,051	-2.0
St. Louis, MO-IL	2,344,912	2,410,884	-2.7
Minneapolis-St. Paul, MN-WI	2,109,207	1,965,391	7.3
Cleveland, OH	1,895,997	2,063,729	-8.1
Milwaukee, WI	1,392,872	1,403,884	-0.8
Cincinnati, OH-KY-IN	1,392,394	1,387,207	0.4
Kansas City, MO-KS	1,322,156	1,273,926	3.8
Indianapolis, IN	1,161,539	1,111,352	4.5
Columbus, OH	1,088,973	1,017,847	7.0
Dayton, OH	826,891	852,531	-3.0
Toledo, OH-MI	791,137	762,658	3.7
Akron, OH	660,233	679,239	-2.8
Gary, IN	638,945	633,367	0.9
Grand Rapids, MI	601,106	539,225	11.5
Omaha, NE-IA	566,140	542,646	4.3
Youngstown-Warren, OH	529,887	537,124	-1.3
Flint, MI	521,541	508,664	2.5

Table 1 cont'd

South	1980 Population	1970 Population	Percent Change 1970-1980
Washington, DC-MD-VA	3,045,399	2,910,111	4.6
Dallas-Fort Worth, TX	2,964,342	2,377,623	24.7
Houston, TX	2,891,146	1,999,316	44.6
Baltimore, MD	2,166,308	2,071,016	4.6
Atlanta, GA	2,010,368	1,595,517	26.0
Miami, FL	1,573,817	1,267,792	24.1
Tampa-St. Petersburg, FL	1,550,035	1,088,549	42.4
New Orleans, LA	1,183,606	1,046,470	13.1
San Antonio, TX	1,070,245	888,179	20.5
Fort Lauderdale-Hollywood, FL	1,005,507	620,100	62.2
Memphis, TN-AR-MS	909,767	834,103	9.1
Louisville, KY-IN	901,970	867,330	4.0
Birmingham, AL	834,067	767,230	8.7
Oklahoma City, OK	829,584	699,092	18.7
Nashville-Davidson, TN	828,540	699,271	18.5
Greensboro--Winston-Salem--High Point, NC	823,285	724,129	13.7
Norfolk-Virginia Beach-Portsmouth, VA-NC	799,853	732,600	9.2
Jacksonville, FL	736,343	621,827	18.4
Orlando, FL	694,645	453,270	53.3
Tulsa, OK	678,627	549,154	23.6
Charlotte-Gastonia, NC	632,083	557,785	13.3
Richmond, VA	630,965	547,542	15.2
Greenville-Spartanburg, SC	562,934	473,454	18.9
West Palm Beach, FL	551,961	348,993	58.2
Austin, TX	532,811	360,463	47.8
Tucson, AZ	531,896	351,667	51.2
Raleigh-Durham, NC	525,059	419,254	25.2
Wilmington, DE-NJ-MD	523,386	499,493	4.8
West			
Los Angeles-Long Beach, CA	7,445,721	7,041,980	5.7
San Francisco-Oakland, CA	3,226,867	3,109,249	3.8
Anaheim-Santa Ana-Garden Grove, CA	1,925,840	1,421,233	35.5
San Diego, CA	1,859,623	1,357,854	37.0
Denver-Boulder, CO	1,615,442	1,239,545	30.3
Seattle-Everett, WA	1,600,944	1,424,605	12.4
Riverside-San Bernardino-Ontario, CA	1,538,066	1,139,149	35.0
Phoenix, AZ	1,511,552	971,228	55.6

Table 1 cont'd

West	1980 Population	1970 Population	Percent Change 1970-1980
San Jose, CA	1,290,487	1,065,313	21.1
Portland, OR-WA	1,236,294	1,007,130	22.8
Sacramento, CA	1,010,989	803,793	25.8
Salt Lake City-Ogden, UT	935,280	705,458	32.6
Honolulu, HI	762,020	630,528	20.9
Oxnard-Simi Valley-Ventura, CA	529,425	378,497	39.9
Fresno, CA	507,005	413,329	22.7

Source: U.S. Bureau of Census (Washington, D.C.: U.S. Government Printing Office); News release, Population of Standard Metropolitan Statistical Areas and Standard Consolidated Statistical Areas by Rank Size, 1980 and 1970, March, 1981.

Table 2

1970-1980 Population Trends for Central Cities of 250,000 and Over By Region

City and State	1980 Population	1970 Population	Percent Change 1970-1980
Northeast			
New York, NY	7,071,030	7,895,563	-10.4
Philadelphia, PA	1,688,210	1,949,996	-13.4
Boston, MA	562,994	641,071	-12.2
Pittsburgh, PA	423,938	520,089	-18.5
Buffalo, NY	357,870	462,768	-22.7
Newark, NJ	329,248	381,930	-13.8
Midwest			
Chicago, IL	3,005,072	3,369,357	-10.8
Detroit, MI	1,203,339	1,514,063	-20.5
Indianapolis, IN	700,807	736,856	-4.9
Milwaukee, WI	636,212	717,372	-11.3
Cleveland, OH	573,822	750,879	-23.6
Columbus, OH	564,871	540,025	4.6
St. Louis, MO	453,085	622,236	-27.2
Kansas City, MO	448,159	507,330	-11.7
Cincinnati, OH	385,457	453,514	-15.0
Minneapolis, MN	370,951	434,400	-14.6
Toledo, OH	354,635	383,062	-7.4
Omaha, NE	311,681	346,929	-10.2
Wichita, KS	279,272	276,554	1.0
St. Paul, MN	270,230	309,866	-12.8
South			
Houston, TX	1,594,086	1,233,535	29.2
Dallas, TX	904,078	844,401	7.1
Baltimore, MD	786,775	905,787	-13.1
San Antonio, TX	785,410	654,153	20.1
Memphis, TN	646,356	623,988	3.6
Washington, DC	637,651	756,668	-15.7
New Orleans, LA	557,482	593,471	-6.1
Jacksonville, FL	540,898	504,265	7.3
Nashville - Davidson, TN	455,651	426,029	7.0
El Paso, TX	425,259	322,261	32.0
Atlanta, GA	425,022	495,039	-14.1

Table 2 cont'd

City and State	1980 Population	1970 Population	Percent Change 1970-1980
South			
Oklahoma City, OK	403,213	368,164	9.5
Fort Worth, TX	385,141	393,455	-2.1
Tulsa, OK	360,919	330,350	9.3
Miami, FL	346,931	334,859	3.6
Austin, TX	345,496	253,539	36.3
Charlotte, NC	314,447	241,420	30.2
Louisville, KY	298,451	361,706	-17.5
Birmingham, AL	284,413	300,910	-5.5
Tampa, FL	271,523	277,714	-2.2
Norfolk, VA	266,979	307,951	-13.3
Virginia Beach, VA	262,199	172,106	52.3
West			
Los Angeles, CA	2,966,763	2,811,801	5.5
San Diego, CA	875,504	697,471	25.5
Phoenix, AZ	789,704	584,303	35.2
San Francisco, CA	678,974	715,674	-5.1
San Jose, CA	636,550	459,913	38.4
Seattle, WA	493,846	530,831	-7.0
Denver, CO	491,396	514,678	-4.5
Portland, OR	366,383	379,967	-3.6
Honolulu, HI	365,048	324,871	12.4
Long Beach, CA	361,334	358,879	0.7
Oakland, CA	339,288	361,561	-6.2
Albuquerque, NM	331,767	244,501	35.7
Tucson, AZ	330,537	262,933	25.7
Sacramento, CA	275,741	257,105	7.2

Source: U.S. Bureau of Census (Washington, D.C.: U.S. Government Printing Office); News release, 1980 Census Population for Cities of 100,000 and Over by Rank Order, June, 1981.

Table 3

Central City Population as Percentage of SMSA (1970-1980) By Region
(Listed in order of 1980 Population)

Metropolitan Area	Central City Proportion of SMSA 1980	Central City Proportion of SMSA 1970	Percent Change 1970-80
Northeast			
New York	77.9	68.2	9.7
Philadelphia	35.9	40.4	-4.5
Boston	20.4	23.3	-2.9
Midwest			
Chicago	42.6	48.2	-5.6
Detroit	27.7	36.0	-8.3
Indianapolis	60.3	67.1	-6.8
Milwaukee	45.7	51.1	-5.4
Cleveland	30.3	38.3	-8.0
Columbus, Ohio	51.9	68.3	-16.4
St. Louis	19.3	29.3	-10.0
Kansas City, Mo.-Kans.	33.9	40.4	-6.5
South			
Houston	55.1	62.1	-7.0
Dallas-Fort Worth	30.5	54.3	-23.8
Baltimore	36.3	43.7	-7.4
San Antonio	73.4	75.7	-2.3
Memphis	71.0	81.0	-10.0
Washington, D.C.	20.9	26.4	-5.5
New Orleans	47.1	56.7	-9.6
Jacksonville, Florida	73.5	100.0	-26.5
Nashville	55.0	82.9	-27.9
El Paso	88.7	89.7	-1.0
Atlanta	21.1	35.7	-14.6
West			
Los Angeles-Long Beach	39.8	40.0	-0.2
San Diego	47.1	51.3	-4.2
Phoenix	50.6	60.1	-9.5
San Francisco-Oakland	21.0	23.0	-2.0
San Jose	49.3	41.9	7.4
Seattle-Everett	30.8	37.3	-6.5
Denver-Boulder	30.4	41.9	-11.5

Source: U.S. Bureau of Census (Washington, D.C.: U.S. Government Printing Office); News release, 1980 Census Population for Cities of 100,000 and Over by Rank Order, April, 1981; and 1970 Census of Population, General Population Characteristics, U.S. Summary (PC (1) B1), Jan., 1972; Table 1967. Reported in Appendix D, in American Federalism in the 1980's: Changes and Consequences; Roundtable on Governments, Lincoln Institute of Land Policy, Cambridge, Mass., August, 1981, pp. 75-76.

[From the Harvard Business Review, v. 60, July-August 1982]

What a business-government partnership can do about our disintegrated urban communities

George Cabot Lodge and William R. Glass

The desperate plight of the underclass

Until a year or so ago, many Americans expected federal social-service programs to meet the most pressing needs of the poor and unemployed in our disadvantaged communities. But times have changed. With the cutting of $22 billion from public social-budget funds for 1982, the Reagan administration has appealed to the private sector to fill part of the resulting gap through increased business donations, leadership, and responsibility. Obviously, business leaders can – if they put their minds to it – find ways to convert the problems of disintegrated urban neighborhoods into opportunities for profitable endeavor. As yet, however, there are only a few examples of how this can be done.

Here, on the basis of interviews with leaders from government, business, and community development organizations, the authors review the various efforts under way to address the problems of the poor and the unemployed. They report on the types of organizations that have achieved the most success and offer guidelines for increased business involvement in the process of community development.

Mr. Lodge is professor of business administration at the Harvard Business School, where he teaches in the general management area. His study of development problems and government-business relations goes back to more than 20 years ago, when he started working on his book Engines of Change *(Knopf, 1970), which concerns the introduction of change into disintegrated communities in Latin America. His most recent book,* The New American Ideology *(Knopf, 1975), analyzes changing relationships between government and business in the United States.*

Mr. Glass, a 1981 MBA graduate of Harvard Business School, is associates fellow at the school, where he is working with Mr. Lodge on a long-term research project to analyze changes in the relationship between business and government in the United States.

Illustrations by Karen Watson.

Concern about unemployment and poverty in the United States is rising. In simpler times business managers might have observed sympathetically and increased charitable giving without feeling any direct responsibility to understand or solve those problems. But the times are not simple, and nearly everyone is expecting business not only to act but to lead.

Millions of Americans are looking for jobs, and other millions who could be employed have given up the search. Our concern in this article is with a particular segment of the poor and the unemployed: the 10 million people in desolate neighborhoods of our major cities who are either more or less permanently poor or unemployed, those who have been called the "underclass."[1] Disproportionately black, Hispanic, and young – although by no means exclusively so – the underclass is composed of single mothers, high school dropouts, drug addicts, and street criminals.

For this group either welfare or crime has become the only way of life. Its members live in disintegrated communities, cut off from the legitimate economy, the world of work, and political power. They are alienated, traumatized, angry, and hopeless. Moreover, having fallen out of the reach of schools and job training programs, they face little opportunity for permanent employment and often see little hope for improving their lot.

---

[1] This estimate of 10 million as the size of the underclass is based on an analysis of University of Michigan Survey Research Center data by Frank Levy, an economist at the Urban Institute, Washington, D.C.

President Reagan has invited American business to address their problems. Last October, he challenged the National Alliance of Business to help those who were "economically trapped in welfare" and who "don't know how to free themselves." Suggesting that government antipoverty programs had done more harm than good, he asked for "private sector leadership and responsibility for solving public needs." And he announced the formation of a 44-member task force to take on the job. Led by recently retired Armco Steel chairman C. William Verity, Jr., the task force is composed of leaders from corporations, foundations, volunteer groups, and religious organizations.

The president thus pinned his hopes for social improvement on private institutions; but he provided no specific suggestions about what each group should do, how cooperation between such disparate sectors could be achieved, where funding for the effort would come from, or what role federal, state, and local governments should play in helping to "foster a greater public-private partnership."

To get some sense of the problem and of how they plan to respond to the president's call, during the last several months we have interviewed a number of leaders in business, in government, and in a variety of nonprofit and community development organizations. We found a good deal of bewilderment and uncertainty. We have reviewed various efforts that are under way to address the problems of urban disintegration and the underclass. Our purpose here is to offer some suggestions for determining what works and what doesn't and for deciding how business can help.

The situation

Ever since the war on poverty was declared in the mid-1960s, substantial federal funds have been directed toward its elimination. A welter of federal programs has dealt out cash and in-kind payments to those in the lowest income categories. While helping to fill basic needs, such programs and funds have not reduced crime, violence, unemployment, drug addiction, or inner-city instability.

Those are the symptoms of a different and perhaps more insidious aspect of poverty – the poverty of alienation. The social, economic, political, and spiritual ties between the underclass and the rest of society have weakened or severed. The combination of broken families, lack of skills, unemployment, and crime creates a nearly insurmountable barrier to entry into the mainstream community. With no access to the rewards of that community, the underclass feels none of its responsibilities. For them, there is no American dream, no sense of social membership, only hopelessness and ultimately despair.

The flow of federal transfer payments to the poor and to the welfare economy it has produced has in many ways increased the isolation of the underclass and its abandonment by other social sectors. While supplying basic needs, welfare programs have also created dependencies that discourage initiative, disintegrate families, erode discipline and self-respect, remove the motivation for education, and foster a burgeoning criminal economy. Furthermore, such programs have relieved other institutions of a sense of responsibility for the underclass.

The reduction of government spending at all levels may decrease the size of the underclass by forcing some to jump the widening gap into the mainstream economy. But unless the gap is reduced and avenues of mobility are opened, those who are close to the reality of urban disintegration expect that many will move naturally to violence and crime. Already, crime has an aura of heroism for urban youth, who see drugs, vandalism, and arson as a way to avoid the degradation of welfare-induced idleness and to gain power, prestige, and income.

Harry Spence, the court-appointed receiver of the bankrupt Boston Housing Authority (BHA), described the conditions facing the underclass in that city: "The issue is not poverty. The real issue is social membership. People can live poor if they have some sense of participation and membership in the larger community. It is the sense of isolation and total abandonment that produces violence." As employers have left Boston, residents of public housing have lost their jobs. (In some BHA projects up to 80% of the residents who could be employed are not.) Other institutions – unions, political parties, churches – have followed business out. Today, 4,000 Boston public housing units stand vacant; they are uninhabitable derelict shells.

At the same time, economic pressures are forcing more and more people to seek housing assistance. Already, 10% of Boston's population lives in government-financed housing. Another 7,000 persons are on the waiting lists. Rents, which are set at 25% of the residents' income, do not pay even the operating costs and leave nothing for rehabilitation or new construction.

Spence maintains that the only long-term solution to the problem is to restore a sense of community to BHA neighborhoods: "It is pointless for some company to come in here with jobs unless at the same time the district attorney's office, the police, and the municipality in general start to focus on these neighborhoods. A public-private partnership is essential."

The approach

If business is to help the underclass gain full membership in American society, it can do so only by participating in efforts and organizations that bring together the prerequisites for the job – that is, a cooperative, holistic approach; the competence necessary; and acceptable authority.

There must be a *cooperative, holistic approach* – that is, multiple reinforcing links from several directions have to be established for improvement to take place. Providing jobs is an ineffective way to introduce change if training, day-care, police protection, legal help, credit assistance, and other support systems are unavailable to make the jobs realistic alternatives to welfare dependency.

The task is to build a sense of community where there is none, to reweave the severed strands of trust and confidence, to build a sense of participation in the larger community. Effective change can come about only by attacking the environmental circle on a wide arc, by using the solution of one problem and the establishment of one tie to solve and establish others. This change can only happen if several groups work together, each in its own area of expertise. Large corporations can provide jobs and management resources but must depend on school systems to train potential workers in basic skills, on churches and social agencies to help alleviate the family problems that interfere with work performance, on local government to provide police protection and city services for a safe, functional environment, and on small business entrepreneurs to bring needed commercial services to large companies and their employees.

There must be *competence* – that is, a collection of the skills, resources, capabilities, and understanding needed for penetrating the circle of problems effectively. Any organization or combination of organizations that would achieve change must have the ability to select, reach, and be trusted by the disparate members of the underclass, some of whom are more unreachable than others.

To act as a change agent, any organization must be able to establish communication and other links with those who are outside the range of traditional institutions. But to complete the tie, it must also bring access to the resources of those institutions, including jobs, training, political influence, and funds from the government and the private sector. Besides the ability to bring the two groups together, competence also requires the ability to produce the level of confidence and motivation on both sides that is necessary for organization, disciplined activity, and new commitment.

There must be *authority* – that is, a decision-making process acceptable to all participants for setting the goals of community change, for determining the course and speed to be followed, and for making the trade-offs inherent in any change effort. The introduction of permanent and irreversible change into disintegrated urban communities is as much a political and social process as it is an economic one. Any change or opening of an additional access point, however slight it may seem, will threaten the status quo. Existing power holders will worry that change will erode influence, and those who are convinced that any change is threatening will feel anxious and afraid.

Attempts to alter the situation of the underclass raise questions of rights and legitimacy. By what right does a company or other organization presume to change a community? In whose interest and at what speed are the changes occurring? According to what criteria are the costs and benefits weighed?

The ability to decide these questions is rooted in the authority, or legitimacy, of the organization undertaking the change. Government is the normal source of community authority, but the residents of many disintegrated urban communities do not recognize the decision-making authority of even local government. Such communities have a void in authority; others have pseudo-governmental groups, ranging from indigenous religious organizations to youth gangs that function as the sources of authority. Any successful effort to bring about change must include a legitimate authority to make the necessary decisions that those on both sides of the new links being established recognize. The experience of the KLH Corporation, makers of stereo equipment in Cambridge, Massachusetts, illustrates the need for an appropriate combination of competence and authority. In the late 1960s the company established a day-care center to meet the needs of its work force, which was largely minority women from nearby poor communities. Imbued with a sense of social responsiblity, KLH management sought the best advice and assistance available from local universities. The result was often described as one of the most innovative child-care centers in the country.

Nevertheless, the parents of the children who attended the center protested that despite the good quality of the school, university researchers had no right to choose what was taught to their children. The KLH parents argued that only they had that authority, and they threatened to close the school. Management later agreed that the parents should supervise the school's activities. The protests ceased, and the center continues to provide day-care of high quality for the children of KLH employees. In this case, as in many others, experts had the competence but not the authority to solve a problem.

Job training is an example of using authority without the necessary competence. In 1981, the federal government spent more than $6.5 billion on job training, but few of the trainees ended up with permanent jobs. Most of the expenditure provided nothing more than temporary income maintenance. The failure to involve business adequately in the program and to employ its essential competence meant waste and disappointment.

What's being done

Numerous efforts are under way, and many organizations exist to deal with the plight of the underclass. In this section we will present examples of five types of organizations that we believe contain all the ingredients for bringing about change in disintegrated urban communities.

Neighborhood organizations

Throughout the deteriorated neighborhoods of America's cities are numerous small grass-roots, self-help, private, nonprofit, and religious organizations that are endeavoring to improve the lives of the underclass and to restore their hope for the future. As Robert Woodson, American Enterprise Institute's specialist in community development, said, "These communities are filled with entrepreneurial talent–small businesses, neighborhood groups. We've got to figure out how to help them. They are the fabric of these communities. A lot of programs emphasize money and technology, but they don't tie into the social fabric that can improve the level of civility in the community."

United South End Settlements in Boston is an example of a successful local neighborhood organization. USES had its origins in the settlement house movement of the last century, when it was established to help new immigrants adapt to American life, but it has survived and evolved over time as the composition of the neighborhood has changed. Today, USES runs a variety of programs ranging from day-care for the children of working parents to the provision of low-cost hot meals to elderly neighborhood residents. Its multipurpose building is available to other neighborhood organizations and provides a popular resource center for social, educational, and cultural activities. Just over half of the USES budget comes from state and federal government sources. Director Frieda Garcia sees the cutback in federal funds producing even more pressure on private donors as the organization struggles to maintain its activities:

"We have always pinched our pennies to get the most out of the dollars we had, and we will continue to do that. But we are also going to have to try new approaches. I plan to analyze neighborhood employers to find workers who can pay full price for our day-care. I've also joined the Boston Chamber of Commerce to gain access to the business community. We can use its help in many ways, including its advice on running our food operation and engineering tips on making our building energy efficient. But our ability to reach out to them is limited by time and resource constraints, which are getting tighter."

Such community and neighborhood organizations, having sprung up in the environment of urban disintegration, clearly have competence and authority within the communities in which they operate. Their competence and authority rarely extend outside those communities, however, to the larger society, where they could achieve favorable regulatory treatment, government support, or access to a broad marketplace for their products. To serve as effective bridges for the underclass, neighborhood organizations need other institutions to reach out to.

Funds-channeling organizations

The Local Initiatives Support Corporation (LISC) is an organization founded to direct corporate resources toward grass-roots neighborhood organizations. LISC began three years ago in New York City with $5 million in seed money from the Ford Foundation and an equal amount from private corporations. Today its budget has grown to $30 million, and it supports numerous chapters around the country. A board of private, nonprofit, and community leaders directs LISC in each locality in which it operates. It serves as an intermediary, directing funds raised from the private sector to support the development activities of local organizations.

The LISC concept had its genesis in the experience the Ford Foundation gained by trying to improve conditions in the inner cities after the urban riots of the 1960s. As Mitchell Sviridoff, LISC president, said, "Out of that experience, it became clear that there is no one strategy, no comprehensive strategy that makes any sense. The most that anyone can hope to accomplish is incremental gain. Maybe if the strategy were well managed, one could stop the spiral of deterioration and reverse it–but this cannot be done overnight."

Consequently, LISC is structured to raise corporate funds and direct them toward efforts where they will have maximum impact. Again, in Sviridoff's words, "The only intelligent strategy now is an economic one that will make the most of the available resources in the community and build on existing strengths."

LISC operates by packaging its funds and making them available in the form of grants and loans to well-established local organizations involved in development projects. According to Sviridoff, "Community development corporations and neighborhood organizations have proved effective in arresting deterioration, reversing the process, and starting growth and development. They have also proved to be the best way of developing competent leadership and management of development programs. A great many things have to be done if the process of deterioration is to be interrupted and reversed. There are difficult political choices, which no city management or private business can make, that only a locally based community development organization can make."

As an example of such difficult political decisions, Sviridoff cited public housing: "The selection of who lives and who does not live in newly constructed subsidized housing becomes absolutely critical. If such housing is totally populated by female heads of household and large numbers of pathological family units, it won't be good housing for long. There is no one who can control the selection or the eviction process more effectively than a neighborhood organization. Unless you can control who does and who doesn't live in newly constructed or rehabilitated units, you are doomed."

By working only with local organizations, LISC buys into authority that has been achieved and furnishes the resources to make the development process effective. Necessary competence comes from three sources: street-wise leadership within the community development organization, access to the larger community's resources through the LISC staff, and liaison with private corporations and nonprofit foundations for funds and other resources such as jobs and training.

By serving as an intermediary, LISC assists its corporate clients and boosts the development process through local organizations. As a conduit for corporate funds aimed at community revitalization, a specialist like LISC is much better than the companies at placing corporate community development funds, and its quality control over the recipients ensures maximum impact for the expenditure.

Cautiously optimistic about the potential for intermediary organizations, Sviridoff believes that more funds will be forthcoming once corporations realize that the monies are being used effectively. The whole process, though, is limited by the amount of funds large companies can set aside for community development. Even a doubling of corporate contributions to the community development process would replace only a small percentage of the cuts being made in the federal social-budget programs.

Federally sponsored cooperative efforts

Private Industry Councils (PICs) were established under the Comprehensive Employment and Training Act during the Carter administration. The purpose of the act was to provide employment and job training for the unemployed, and the objective of the PICs was to ensure private industry input into the design and structure of government-funded job training programs. Although most observers consider only a dozen or so exemplary, PICs now exist in 450 communities. Directed by boards composed of leaders from the public, community, and private sectors, PICs engage in activities centering on issues of business development, training, and employment.

Ted Small, president of the New York City PIC and chairman of the National Association of Private Industry Councils, outlines their mission as the provision of training that will allow those without marketable job skills to obtain permanent, well-paying jobs. The New York City PIC seeks to identify job categories in the private sector that have shortages of employment candidates. The PIC then either starts up or contracts for a training program in which its unemployed clients can enroll.

Government funds supplement wages during the training process and the initial period of employment; in return, private employers guarantee the graduates jobs. For corporations that have their own training programs, PIC provides prejob training (instructions on punctuality, dress, on-the-job behavior) and then lobbies the companies to give its clients access to training spots.

Small cited the example of skilled machinists as one of his organization's successes. Through a survey of industrial activities in New York City, the PIC discovered that small manufacturing companies were turning down business because of a shortage of skilled machinists. With the advice of the potential employers, the PIC set up the only machinist training program in New York and has succeeded in placing formerly unemployed men and women in skilled, high-wage, long-term jobs while at the same time providing the scarce resources necessary for many small New York machining and manufacturing businesses to expand. Small says that numerous jobs are waiting to be filled and that many persons are looking for jobs; the bottleneck is that the applicants lack training in the skills necessary for the jobs.

Cay Stratton, executive director of the Boston PIC, agrees that government-sponsored organizations such as PICs can provide needed assistance to private companies. Through its business assistance program, the Boston PIC devotes a large share of its resources to alerting companies to available government help and thereby expands job opportunities for the unemployed. According to Stratton, "If you start coupling tax incentives with employment training, you are really talking about fairly hefty savings on the wage side. In many cases, savings have been dramatic. Many companies simply don't have any idea of the availability of this."

Stratton emphasizes that input from the private sector is necessary if cooperative efforts are to achieve their goals: "We have little to show for the great amounts of federal money poured into public service employment. That kind of experience never led to jobs in the private sector. Unless employers have a large share in the design and the management of training programs as well as in providing jobs, we don't do very well."

Government has the responsibility of providing the funds, while business offers experience and competence. The training programs run by the New York City PIC are ideal examples of this kind of public-private cooperation. The trainees prepare for jobs that are guaranteed by private employers and therefore fulfill a market need. Employers design training programs so that PIC trainees will acquire the desired skills. Public agencies have the authority and responsibility to select and help subsidize the candidates until they reach entry-level productivity.

John Filer, chairman of Aetna Life and Casualty and chairman of the National Alliance of Business, has encouraged both Aetna and NAB to "support, develop, and improve the operation of the PICs." They offer a widespread, cooperative structure on the community level that is already in place. In many communities, even where programs are regarded as less than outstanding, PIC board meetings provide a rare opportunity for business, government, and community leaders to meet in an atmosphere of cooperation. This is a requisite first step toward the multisector effort necessary to reintegrate depressed urban neighborhoods into the larger community.

Enlightened business leadership on PIC boards can give this type of organization an important role in providing avenues for the underclass to escape their status. But there is concern that the reductions in federal funds may greatly dampen such efforts. For 1982, Congress has cut the budget for the 450 PICs by 7%.

Semigovernmental development organizations

The South Bronx Development Organization Inc., like similar organizations in Baltimore, Philadelphia, Cleveland, Chicago, Newark, and other cities, is a nonprofit public corporation created to plan and manage the development of a disintegrated urban area. SBDO has received some $2.5 million of federal and state monies supplemented by foundation and project grants.

Although largely independent of city government, SBDO derives its authority from a board of directors whose members represent city hall, the State of New York, the Bronx borough president, and the six South Bronx community boards. By bringing in funds, jobs, services, and other resources, it serves as an intermediary between the residents of the South Bronx and the world of private and nonprofit organizations that are trying to bring new life to this battered 20-square mile area where 500,000 people live.

SBDO's achievements thus far have been modest but significant. It raised $110,000 from the Vincent Astor Foundation and the International Ladies Garment Workers Union to plan a 21.5-acre industrial park and nearby housing. The project, Bathgate Industrial Park, is well under way, the first building having been completed and fully leased. The Port Authority of New York and New Jersey has committed itself to developing the next three blocks.

SBDO contracted with City Venture Corporation (a consortium jointly owned by Control Data with several other companies and two national religious organizations) to explore the feasibility of setting up a technical assistance center for small businesses. SBDO then worked closely with the New York City PIC to develop training programs linked to job placement and economic development programs and secured the help of Avco Corporation of Los Angeles to conduct a Job Corps youth training program. SBDO also works with LISC in its efforts to invigorate local community groups.

SBDO and development corporations like it are an attempt to employ a holistic approach and to assemble the necessary combination of competence and authority to achieve community change. It does comprehensive development planning on an areawide basis. It provides, organizes, and contracts for competence from outside sources. It legitimizes the application of this competence through political ties both outside and inside the target area.

The creation of a development corporation tied closely to but independent of local government is an appealing way to ensure continuity through political changes in city hall. Particularly in municipalities where election cycles inevitably lead to program changes, an independent development corporation dedicated to community revitalization can be an especially good way to involve business in the process.

Direct corporate intervention

Many corporations have attacked the problems of the underclass through unilateral action. Most of these efforts have taken the form of charity or extending regular business activities into poor inner-city neighborhoods. This philanthropy represents the provision of resources to others who have the authority and competence to use them for community revitalization.

A number of other corporations have tailored their operations to tackle community problems directly: IBM has built a plant in the Bedford-Stuyvesant area of New York City; Wang Laboratories has built in Lawrence, Massachusetts; Honeywell has pioneered in training and employing the handicapped; Chemical Bank has been making a special effort to hire the underprivileged in entry-level positions; Aetna and Prudential have allocated a portion of their investment funds to community development ventures that involve high risk.

Still other organizations, such as Clorox, Kaiser Aluminum, Bank of America, Security Pacific Bank in California, Hallmark in Kansas City, Procter & Gamble in Cincinnati, and the Minnesota Business Partnership in Minneapolis-St.Paul are recognized nationwide as leaders in the communities in which they operate. Most of these efforts are applications of a single special competence (constructing a manufacturing facility, hiring employees, making investments) in a traditional business area where the company's authority is widely recognized.

Two businesses make a practice of holistic community development. One is the Rouse Company, which has become well known for its success in turning decaying downtown warehouse and industrial districts into thriving commercial centers in Boston, Baltimore, and Philadelphia. The other is Control Data, which through City Venture Corporation revitalizes entire urban neighborhoods by planning and implementing industrial, commercial, and residential development.

City Venture operates in some ways like a community development corporation such as SBDO. It contracts with a city government or other local public authority to provide all or part of a comprehensive development plan for a particular neighborhood. It formulates the plan along with specific performance criteria, such as number of jobs to be created, and then contracts to implement the plan. By working with local community groups and bringing in outside resources, City Venture manages the development process. Like any contractor, City Venture expects to be held accountable for the performance goals it has set. It also expects to make a profit.

City Venture had its origin in Control Data's experience of building a factory in an economically depressed area of Minneapolis, an effort prompted by riots there in 1968. The company learned that normal practices had to be altered to establish the factory successfully. The company decided to hire employees on a first-come, first-served basis, to reduce a four-page application form to half a page, to set up a day-care center for employees' children, to make credit available to employees, and to teach its proper use. In all, bringing the Northside Minneapolis plant up to the employee training level of other plants cost $2.5 million. The government paid $1 million of that investment, and Control Data paid $1.5 million, which it regarded as the equivalent of research and development for a new product.

The eventual success of the Minneapolis factory led Control Data to repeat the effort in disintegrated neighborhoods of six other cities – in Toledo, Baltimore, Miami, Philadelphia, Charleston (South Carolina), and Benton Harbor (Michigan). Each new factory was brought up to speed more quickly than the last until urban plant setups were on a par with those in suburban locations managed in more traditional ways.

Through these experiences, Control Data gained a great deal of knowledge about how to bring economic development to depressed urban neighborhoods. In an effort to make that knowledge generally available, Control Data used it as a basis for founding City Venture. According to Roger Wheeler, Control Data vice president, "There is far more learning necessary than I ever would have believed starting out on this path, nor do I believe most people understand what is necessary to make something like this work. It's like everything else: it's complex, and it's got a tremendous array of dynamics, many of which are out of your control. We've turned that learning into a product through City Venture."

Besides employing City Venture, urban economic development often creates a need for Control Data products such as its computer-based education system, its diagnostic health care systems, and its business and technology centers, where small businesses share support services.

Control Data chairman William Norris sees the response to social needs as his corporate strategy: "We started in 1967. We did not have all these products and services. If you get involved and your executives begin to see gain as prospective, then you will develop products and services as we did." He envisions the need for urban revitalization growing until there is massive public investment in it. He wants Control Data poised to take advantage of that investment.

Control Data's Wheeler recognizes that business alone does not have the authority to reshape communities but says that if it is frank about its objectives, a company can work with other groups to get the job done profitably: "There is a natural suspicion that a big company working in a community is going to rip it off. What Control Data has learned is that there is a process by which a partnership among community, government, and business can be formed and by which the answers emerge and emerge in ways that have a chance to bring about success."

Why business should help

Each of the five nonprofit and community organizations we examined was operating prior to President Reagan's challenge to the private sector to help solve social problems. Each organization hopes business will translate increased interest and attention into increased support in the new environment. Each of the organizations furnishes at least one element of the public-private partnership necessary to establish the ties through which the underclass can rejoin the larger society.

Optimism stems from the belief that corporations will join in efforts of the type just described and do the job. Pessimism, which is more prevalent, arises from the belief that business won't or that it won't know how. People also fear that government funds, which continue to be essential to any success, will no longer be available. For 1982, $22 billion has been dropped from social-budget funds, and another $22 billion in cuts is proposed for 1983.

Many business leaders argue that the primary responsibility of business in America today is to offer its goods and services efficiently and competitively. They say that the funds of steel, auto, and electronics companies, for example, should be invested in new plant and equipment to overcome our lost lead in the world economy. The best way to prevent an increase in the underclass is to provide new employment to the unemployed and increased income to the working poor. The leaders with whom we spoke, however, contend that economic growth alone will not solve the problems of the underclass. Though growth provides a context in which success is more likely, the problems of the underclass are structural, and extra effort is needed to reach them even with high rates of growth.

Most of the business leaders with whom we spoke believe that the problem of the underclass and the urban disintegration that its continued existence causes threaten the viability of American society. Large institutions such as banks, insurance

10
THE UNITED STATES
A
COMPANY

companies, and retail stores cannot easily leave the cities where they are located. They depend on those cities for both a work force and a market, and being large, they are natural targets for violence. Consumer product manufacturers, too, find moving to healthier climes costly.

As John Filer has said, "If the city in which you do business is in total disarray, it's going to be ever so much more difficult and more expensive to operate your business in that community. People say, 'Well, I can always go to Houston.' Sure, that's fine, but Houston in due course is going to deteriorate also unless we act."

Business leaders have a natural aversion to economic inefficiency. They argue that the cost of supporting the residents of disintegrated communities through income redistribution and repair of the damage done by crime and violence is greater than the cost of solving the problems. These leaders cite statistics showing that the cost of creating a job and providing the training for a resident of a depressed inner-city neighborhood is on the order of one-third to one-half the savings that society enjoys by changing that person from a net receiver of public welfare to a taxpayer.

According to Cay Stratton, "My numbers show that if you can take somebody off welfare and train him or her within six months to a year for a manufacturing job, that person will be making $6 to $10 an hour within the first two years, and you will get your money back within a three- or a four-year period. To train for those jobs runs us, including a stipend, around $6,000 to $7,000 per person."

Another economic argument is based on an analysis of demographic trends and suggests that a company can directly benefit from bringing jobs and training into inner-city neighborhoods. Projections of future work force composition show a marked decrease in the number of workers in entry-level categories as people from the baby boom mature at the end of the decade. As companies compete for decreasing numbers of entry-level workers, they will be forced to increase wages or to automate.

An alternative would be to find a new source of workers and begin training now to guarantee an uninterrupted supply in the future. The largest source of potential entry-level employees is unemployed youths in inner-city neighborhoods. Business will be forced to train and hire them within ten years as the market absorbs other sources of labor. The company that learns how to tap this labor market will have a competitive advantage. It can ensure itself a steady stream of entry-level employees while its competitors are scrambling to fill the gap that demography promises. At the same time that the company ensures its own future through provision of jobs and job training, the community benefits from reduced unemployment and the establishment of ties that provide inner-city youth with alternatives to lives of dependency or crime.

Some make a political argument in favor of business effort to deal with the problems of community disintegration. By calling on American business to better the social system in this country and reduce the federal government's role in doing so, President Reagan has set high expectations for business performance. If business does not meet those expectations at least partially, and if people do not perceive an improvement, many business managers predict a severe backlash at the polls.

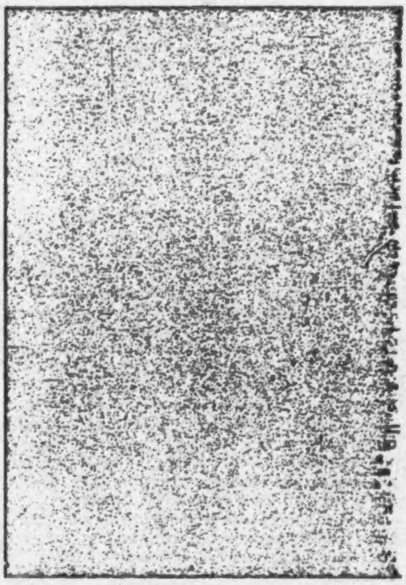
According to Roberto C. Goizueta, chairman of the board and chief executive officer of the Coca-Cola Company, "American business has one clear chance to prove that business unfettered will be business unflagging in service to American society. Today, we are beginning to get the opportunity that we have wanted for so long to prove that when private enterprise is relatively free, it can be the primary agent of response to human need. The Reagan administration has given us the chance to put up or shut up."

In the long term, community disintegration destabilizes the environment in which business operates. The presence of a large population cut off from the mainstream's economic and social institutions constitutes a threat to those institutions, especially within the confines of a city where the underclass forms a large percentage of the population. People can express unmet demands in a range of ways, from riots to support of "antibusiness" political candidates.

Most of the business managers with whom we spoke told us that their priority for government is to have it provide an environment in which they can operate their businesses efficiently. Now that the political environment is changing in a direction favorable to business, they hope to preserve the change over the long term by shouldering some responsibility for the structure and health of the society in which they operate.

Perhaps the most common response we heard to the question of why business should accept the president's challenge was that it is the right thing to do. Business managers want to be good citizens. They point with pride to efforts their companies have undertaken to improve their communities, not because they were in the companies' best interest but because they were the right things to do.

Though doing the right thing is a strong motivating factor, business managers also feel constrained in their freedom to allocate corporate resources to alleviate social problems. They complain of having few resources left after the claims of customers, suppliers, employees, and shareholders have been satisfied. Unless it is in the interest of the groups that make up the corporation, many managers despair of



their ability to obtain the funds necessary for solving the problems of depressed urban neighborhoods even if they want to.

The prerequisites

If business managers are to improve the plight of the underclass by helping to build the bridges that will allow its members to reenter the larger society, there are some prerequisites for efficiency and effectiveness.

Business should not underestimate the difficulty of the task.

As Marcia Kaptur, former assistant director for urban affairs of President Carter's domestic policy staff, put it, "There is an enormous cultural gap between disintegrated communities and business. Business expects things to happen quickly; it wants clear measures of success. That's not the way things work in the inner city. Change takes a long, long time. Business must have great patience and not underestimate the challenge."

Effecting social change is not a market where returns come quickly or are easily measurable. Business managers who get involved in the effort must be careful to set realistic goals and maintain realistic expectations for themselves, their business colleagues, their cooperative partners from other sectors, and the persons they are trying to help.

Effective action requires a large corporate commitment.

If a company's goal is to achieve permanent change, it must expect to expend a large amount of resources over a long time. Those resources include both people and money. Several observers mentioned in our interviews that commitment to the effort by the CEO is a prerequisite for successful corporate participation. As John Filer put it, "I'm convinced that until the boss gets into this and understands it and you get it structured within the company, not much is going to happen. The resource commitment has to go beyond philanthropy. This isn't charity. This is business. You have to believe your survival depends on it."

The necessary human resources include those who have expertise in dealing with community groups, government agencies, and business's other partners in the community change effort. A corporation can obtain the necessary expertise either by expanding recruitment beyond traditional areas to bring it in-house or by working with such organizations as LISC and SBDO.

Corporations must have a realistic community perspective.

Although the economic access that business can provide to the underclass is of crucial importance, that tie alone is not sufficient to accomplish the goal of reintegration. A company that wants to contribute to community development must realize it is operating on only one plane of a multifaceted task. It is also necessary to ensure that the company's efforts fit into the network of relevant organizations – public and private – that we have described.

The introduction of small businesses into disintegrated communities should be an important component of the process. Before Congress now is legislation that would create enterprise zones providing incentives to encourage small businesses to locate in these communities. Without a holistic approach, however, such a program will fail. Unless the community, through both neighborhood organizations and local government, provides a wide range of services for a supportive environment, extremely vulnerable small businesses cannot survive. Large corporations, which serve as customers and advisers of small businesses, must also play a role in shaping the environment.

Corporations must cooperate with other organizations.

To be successful, corporations must join organizations with similar goals. Business cannot make decisions alone. When initiating community development projects, where business managers can often play key roles, business must press for inclusion of other sectors. The five types of organization we have described all provide cooperative opportunities for business to become involved in the process of community change.

Such cooperation is not only beneficial to the community but also serves the direct interests of business. Companies need a pool of entry-level employees, which many business leaders complain the public school systems do not provide. Felix Rohatyn, chairman of the New York City Municipal Assistance Corporation and a general partner at Lazard Frères, has proposed a cooperative arrangement with mutual benefits:

"Inner-city school systems should be tied as directly as possible to employment opportunities, with the ultimate aim of being able to hold out the promise of a job if a child stays in school, off the streets, and out of trouble. The 'workfare' requirement being discussed by the present administration as a prerequisite for welfare payments should be replaced by a 'schoolfare' requirement. If job opportunities are created for inner-city youths graduating from school, a requirement for school attendance as part of the welfare program would be more meaningful than a requirement for menial and useless work."

Business must lead in guiding the federal government's role.

Since business is hard-pressed these days to keep alive and abreast of foreign competition, and since state and local governments are struggling to meet demands stimulated by federal budget cuts, the federal government continues to hold the key to success in eliminating the underclass in America.

Everyone with whom we spoke thinks that reducing the amount of federal management of the community development process and leaving much authority and responsibility at the local level would help put disintegrated communities back together. But all of them agree that the process cannot accelerate without federal funds. They are unanimous in their opinion that they have neither the resources nor the ability to take on the task of reintegrating the underclass alone. They complain about President Reagan raising expectations that private industry will replace the billions of dollars cut from federal social programs, while in fact the funds available to the private sector cannot come near doing so. While most are willing to increase their voluntary action, they feel that the federal government cannot abandon the task of either defining the goals or marshalling the resources.

As of this past spring, business leaders were openly expressing their worry that many of the federal cuts in education and welfare would only worsen the employment situation. By 1983, spending for disadvantaged students will drop 24% from the 1981 level as a result of decisions Congress has already made. In voicing concern about the administration's approach, Alexander B. Trowbridge, president of the National Association of Manufacturers, said he sees "no human resources policy per se."[3] The confusion and uncertainty about federal policies in recent months has been almost as damaging to the organizations we examined as have the cuts themselves. SBDO, for example, was refunded in March only days before it was due to expire.

Though business cooperation in the types of efforts we have described can do much good, such efforts are on the micro level and can provide only small progress toward solving the overall problems. Business leaders must insist on federal policies that provide the necessary commitment over time in the form of funds, incentives, and guidance. If they do not, they will be saddled with blame for failure. The opportunities for business participation in the process of community development will have far greater chance of success and will in their sum help alleviate the larger problem if they are taken on in an environment of coherent federal policy that encourages wide participation and provides adequate resources.

If business leaders want to succeed in their efforts, they must help guide the federal government in the role it should play. To respond effectively to the president's call for help in solving our social ills, business must not only act but must lead in shaping the environment for its actions. ∇

---

[3] See "Why Welfare Roles May Grow," *Business Week*, March 29, 1982, p 166.

aascu

American Association of State Colleges and Universities One Dupont Circle/Suite 700/Washington, D.C. 20036 (202) 293-7070

August 17, 1982

RECEIVED [illegible] 16 1982

Chairman Henry S. Reuss
Joint Economic Committee
G 133 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Reuss:

On behalf of the urban colleges and universities who are members of the eight associations listed below, we would like to thank you for the opportunity to formally comment upon the recent hearings held by the Joint Economic Committee on the Administration's National Urban Policy Report. We applaud your initiative in calling these hearings on this vital and important national issue.

America's urban colleges and universities are a major resource to the population of our cities through their traditional functions of teaching, research and community service. These higher education institutions are also an important economic force in our nation's cities as stable employers and consumers of goods and services in the urban environment.

We are concerned that the President's National Urban Policy does not acknowledge the many roles of the urban colleges and universities, and moreover, the critical importance of higher education in the revitalization of our urban communities.

The President's Report details many of the social and economic woes of our cities, and it correctly identifies the lack of adequate training and education as a central cause of personal and economic failure. Yet the policy statement denies any federal responsibility for assisting states and localities in matching the labor force with the needs in the economy. The President's Report stresses the importance of enhancing the quality of life in our cities, and suggests this can be achieved by reducing the crime rate. Yet the report fails to mention that education is an important mechanism for improving both the quality and the standard of living in the United States.

Chairman, John J. Kamerick, President, University of Northern Iowa; Chairman-Elect, James W. Cleary, President, California State University, Northridge; Past Chairman, Roland Dille, President, Moorhead State University, MN; Secretary/Treasurer, Rodney A. Briggs, President, Eastern Oregon State College; President, Allan W. Ostar.

Directors: Warren Baker, President, California Polytechnic State University, San Luis Obispo; Virgus R. Carrasier, President, University of Texas of the Permian Basin; Myron L. Coulter, President, Idaho State University; H. Douglas Covington, Chancellor, Winston-Salem State University, NC; Alan Guskin, Chancellor, University of Wisconsin-Parkside; Larraine R. Matusak, President, Thomas A. Edison State College, NJ; Charles Mayo, President, West Chester State College, PA; Janet Gorman Murphy, President, Lyndon State College, VT; Joseph J. Orze, President, Worcester State College, MA; G. Robert Ross, Chancellor, University of Arkansas at Little Rock; Charles B. Vail, President, Winthrop College, SC; Ronald Williams, President, Northeastern Illinois University.

Cable Address: AASCU-Washington, D.C.

Our associations and their urban member institutions have been deeply involved over the past decade in the nationwide effort to improve life in our cities. In Washington, most of our associations collaborate through a Washington Staff Task Force for urban higher education. This group was, in fact, initiated through a memorandum of understanding with the Department of Housing and Urban Development in 1979 because previous national urban policies had failed to address the role of higher education in urban revitalization. Through the Task Force, our associations and their member institutions became partners in community development projects across the country.

As examples of these projects, we cite the following:

- A Pasadena City College (Pasadena, CA) program set as its goal the development of a long-range plan for growth and management of a Community Skills Center. A workshop was held to help to bring together those with a stake in the success of the Center. This solidified the relationship of the partners in the Center and improved its operation.

- At Jackson State University (Jackson, MS) a university-city revitalization partnership conference was held. As a result, committees were formed to develop training programs for university security officers. A liaison was set up between the university and community to identify mutual problems and solutions.

- At Medgar Evers College in Brooklyn, New York, a university sponsored child care center was developed. The program conducted "practical research" to plan a well-defined concept for such a center.

- A Marygrove College (Detroit, MI) program sought to develop a safe, aesthetically pleasing and economically strong business district. One outcome of the project was the receipt of a matching grant from a local private development organization.

We urge the Committee and Congress to redress the inadequacies of the Administration's Policy Report and to recognize America's urban colleges and universities as a vital resource in the rebuilding of our nation's cities.

The following associations join me in support of this testimony:

Association of American Colleges
National Association for Equal Opportunity in Higher Education
American Council on Education
National Association of State Universities and Land-Grant Colleges

American Association of Community and Junior Colleges
Association of Community College Trustees
American Association of State Colleges and Universities
Committee of Urban Program Universities

Sincerely,

Allan W. Ostar

Allan W. Ostar
President

AWO/lsh

1784 THE FIRST NATIONAL BANK OF BOSTON

The Urban Business Identification System and New Public/Private Partnerships for Local Economic Development

Statement by James M. Howell
Senior Vice President
and Chief Economist
The First National Bank of Boston

I appreciate the opportunity to provide the members of this Committee with information about an exciting new initiative for urban economic development that is underway in a number of cities across the country. In my own view, this initiative is an excellent example of public/private cooperation in urban economic development. Moreover, the system goes to the heart of the economic development process in generating small business start-ups and expansions in inner cities.

As we all know -- and as you have heard in earlier testimony -- older industrial cities in this country have more than their share of problems, and starting or expanding a business in the inner city can present special ones. A litany of urban ills -- crime, congestion, corruption -- form the basis of businessmen's concerns, implying that it is virtually impossible to earn a profit when operating in such an environment.

But there are financially sound business opportunities in older central cities -- and a technique now exists for identifying these opportunities. I would like to describe this technique to you and, more importantly, explain why it holds such promise for our nation's older cities.

Developed by the Council for Northeast Economic Action (CNEA), together with urban geographers at Boston University, the technique is known as the Urban Business Identification System (UBI). UBI can be used to identify which of more than 700 types of businesses within an urban area, or SMSA, offer the best growth prospects.

UBI is based on the logic, borne out by empirical evidence, that urban areas of similar size and socio-economic characteristics can support an equal number of firms in individual industries.* In other words, the demand for a business service is reasonably uniform from urban area to urban area. While most businesses in an urban area have the "right" number of firms to satisfy demand for their product or service, a certain percentage of business opportunities in a given area will be undersupplied or oversupplied in terms of actual expected number of firms in each industry. UBI will identify the unique list of undersupplied businesses that are prime candidates for entry into the urban market. This list of firms can then be used to substitute goods and services produced in the city for those purchased from firms in the contiguous suburban areas and/or in other urban areas.

---

* The theoretical foundation for UBI is central place theory, a general theory explaining the sizes and spacing of cities. The general principle underlying the regularities or consistencies in business functions in cities was demonstrated by Walter Christaller in the 1933 work in the field, Die Zentralen Orte in Suddetschland (translated by C. Baskin: The Central Places of Southern Germany) Englewood Cliffs: Prentice Hall, 1966.

The high correlation between the number of firms in a given industry and population and socio-economic characteristics of an urban area has been substantiated in a number of empirical studies. Many of these are reviewed by Brian Berry and Allen Pred in Central Place Studies: A Bibliography of Theory and Application, Philadelphia Regional Science Research Institute, 1965.

UBI has been tested in Flint, Michigan, Hartford, Connecticut, and Denver, Colorado, and the results are exciting. They clearly show that there are numerous business start-ups and expansion opportunities in these cities.

Last fall The First National Bank of Boston commissioned CNEA to apply this technique to Boston and the results of this study were made available in May. Of the industries in Greater Boston, CNEA selected 551 which would be appropriate for inner-city locations. These 551 were selected because they are especially appropriate to the inner-city setting; that is, relatively simple to manage, requiring only limited space and needing only $50,000 to $100,000 in start-up capital. The UBI system identified 49 of these 551 industries in Greater Boston as undersupplied. These 49 undersupplied industries are now targeted for business development in the central city of Boston. Among other things, The First National Bank of Boston is using this industry list as a tool in evaluating business loan requests.

In Hartford, UBI is being used to target industrial opportunities in a proposed state urban enterprise zone, where data processing supplies, electrical motors, medical and industrial gases, and audio-visual equipment and supples are among the industries with significant development potential. Discussions sponsored by the Greater Hartford Chamber of Commerce are currently underway to use the results of the UBI system as a means of achieving small business diversification in neighborhoods. The mayor's office is not only supportive, but is actively involved.

Outside the New England region other interesting applications of UBI are taking place:

- In a Southwestern city, the mayor's office is planning to use UBI to strengthen its small business development program.
- The Chamber of Commerce in a Southeastern community is starting a minority business development program, with UBI as a key component.
- Other cities are looking to UBI as a means of involving neighborhood groups in downtown revitalization projects especially when these projects involve the designation of an enterprise zone or its equivalent.
- Rapidly growing urban areas in the West are relying on UBI as the foundation for small business diversification programs.

But whatever the city and its specific small business development strategy, the success of start-ups and expansions will rest ultimately with their ability to satisfy the three fundamentals required of any new business venture: availability of capital, good management, and market demand. Each of these fundamentals is critical to business profitability.

UBI provides vital information on the last of these fundamentals -- market demand -- and as such takes a significant degree of randomness out of the economic development process. To the businessman and would-be businessman who may look at the city and see only the negatives, UBI says that they ought to look again.

Clearly, then, UBI has its advantages for businessmen and potential businessmen considering the growth prospects of different industries and for local municipal officials desiring targeted development programs. I would point out that it also has distinct advantages for bankers seeing the business opportunities as prospects for some of their urban lending policies, such as SBA programs, and for neighborhood groups desiring to start income-generating subsidiaries which would allow them to continue to address their social concerns.

Equally important -- and apropos for public/private partnerships -- UBI results can provide a common agenda for discussion among urban community groups, government agencies and bankers as they jointly seek to improve the local economic environment. This has, in fact, happened in Boston, where bankers, community groups, and city officials are planning to use UBI as a basis for new local economic development strategies.

Let me take a moment to emphasize how important UBI can be to CDCs -- neighborhood-based organizations -- which have been shifting away from adversarial relations and toward cooperative relations with the private sector. Many now want "a piece of the action," which can mean becoming financial partners in local businesses. And, because UBI helps determine what kind of action is likely to succeed, local community groups so far are supportive.

Kirk Scharfenberg, a columnist for The Boston Globe, also believes that UBI can be used to help overcome the racial problems in many older cities. Referring specifically to what UBI could mean for Boston, Mr. Scharfenberg wrote in a column on June 15, 1982:

> "The development of new businesses in city neighborhoods would provide accessible jobs. It could spark the revitalization of neighborhood commercial areas, which in many sections of the city are in tough shape. If community based organizations get a piece of the action -- and a piece of the profits -- that will provide at least some money to offset the decline in neighborhood based social services resulting from the cutbacks in federal funds.
>
> Finally, it would be possible, at least if the government used some of its economic development funds to provide start-up capital for new, small neighborhood businesses, to require some racial diversity in employment and, thereby, to begin to break down turf barriers, the notion that a neighborhood is "white" or a neighborhood is "black".

Unquestionably, it would be unwise to overpromise what UBI alone can deliver. Nonetheless, public/private partnerships working together can possibly make UBI useful not only in a strict economic sense but in a social policy sense as well.

Many others are enthusiastic about the expected benefits of UBI. John Gunther, Executive Director of the U.S. Conference of Mayors, has sent a letter to all members of that organization endorsing this technique and urging other municipal officials to use it.

In the letter he calls attention to the system's many practical applications -- for example as aids in small business diversification and enterprise zone planning. He also notes that "in our discussions with mayors, the private sector, neighborhood organizations, city government personnel, and others, this method excites strong interest."

In this regard, I am pleased to point out that Massachusetts has become the first state in the country to use this technique on a statewide basis for community economic development. As part of that program, Massachusetts communities will be able to receive help from the state as they seek to encourage these small business "targets of opportunity".

Governor King's decision to use UBI as the basis for a statewide community economic development program undoubtedly takes into account the realities of intergovernmental relations in the 1980's. As Federal grants to Massachusetts and its communities decline -- an inevitable occurrence under the new federal budget cuts -- broadening the revenue base for existing taxes becomes particularly important. The large-scale creation of small businesses throughout Massachusetts is viewed -- and I believe justifiably so -- as an important step in this direction.

In summary, the Urban Business Identification System offers communities and states an innovative technique for identifying small businesses with the greatest potential for growth. This technique is useful in older industrialized cities -- particularly communities that are anxious to engage in revitalization, but do not always know how to proceed, especially in a period of scarce resources. And, as I said at the outset of my remarks, this technique draws upon and encourages the private/public partnerships that are one of the major cornerstones of community economic development.

A STATEMENT FOR THE RECORD, HEARING ON REFORM OF GOVERNMENT STRUCTURES AND INTERGOVERNMENTAL RELATIONS, PRESENTED TO THE JOINT ECONOMIC COMMITTEE, CONGRESS OF THE UNITED STATES, BY DR. DAVID B. WALKER, ASSISTANT DIRECTOR, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS WASHINGTON. DC 20575. JULY 15. 1982

There have been great changes at both the state and local levels of government in the past ten to fifteen years. Local governments still are the primary service providers, but they are becoming less independent and there are fewer differences among the various types of local governments. The states have become much more capable and more involved in urban affairs. Areawide organizations, largely for planning purposes, have become almost universially available adjuncts to the local government scene in both metropolitan and non-metropolitan areas. These broad trends deserve a closer look.

The Record of Local Government Reform

Local Responsibilities. In the past ten or more years, notable changes have occurred among the five types of local government in their relative shares of responsibility at the local level:

+ Although municipalities continued to be dominant in providing local services in 1977, their position was not as strong as it had been ten years earlier. There was a major shift in relative expenditures toward the counties and away from municipalities. This shift happened in higher education, hospitals, health, police, fire protection, sewerage, other sanitation, parks and recreation, corrections, and libraries.

- + Expansion of counties' functional role has been accompanied by an increase in their discretionary structural authority in over half of the states. About one-quarter of the counties have moved to modernize their administrative operations by adopting an elected executive or manager form of organization.

- + In hospitals, fire protection, sewerage, and libraries, a significant part of the relative decline in the municipal position was accounted for by the increased importance of special districts. Of the five types of local units, special districts showed the most pronounced increase in number in the ten-year period, rising from 21,264 in 1967 to 25,962 in 1977 — a jump of 22%. Yet, the increase in the number of regional special districts was less notable.

- + Schools continued to represent the largest single functional category of local expenditures -- 26.2%. The number of school districts, however, continued its long-run decline, although at a sharply diminished rate in the 1972-77 period.

- + The rural townships of nine midwestern states experienced a steady decline in relative importance as units of general local government until the advent of the federal general revenue sharing program in 1972. Since 1972, these townships have expanded the scope of their activities, increased their expenditure and employment at noticeably higher relative rates than cities and counties in their states, and relied on general revenue sharing for a larger share of their total revenues compared to their local general governments.

Overall, possibly the most striking developments at the local level in terms of functional responsibilities were the decline in the number of functions dominated by one type of local government and the growing similarity in services between many urban counties and municipalities. This blurring of differences among the types of local government may be seen as a case of the one historic urban form — the municipality — being unable to keep up with the mounting demands demands thrust upon it. The reasons for this lag are multifaceted: the legal, territorial, political, and economic inhibitions on municipalities -- particularly the larger ones in the older parts of the nation; the availability of the county in many parts of the country and the special district pratically everywhere to meet certain urban needs; the growing tendency for urban-type services to be increasingly demanded by citizens in both rural and urban areas: the expanded importance of federal assistance; and the federal government's growing practice of making such assistance available to counties and special districts, as well as to municipalities.

Local Procedural and Structural Adaptations. The allocation of functional responsibilities between states and their localities and among types of local units reflects continuing efforts to adapt substate governments to changing needs and new pressures. The adaptations are both procedural and structural. Procedural approaches -- assigning functions without changing government structures -- have been used in varying degrees and with mixed success in the past ten to 20 years.

+ Intergovernmental service agreements were used by more than 60% of local governments in the early 1970s. Currently, they remain a popular method for responding to problems arising from the mismatch between jurisdictional boundaries and service needs. As of 1976, 43 states had some type of general law authorizing such agreements -- one more than in 1972 and 29 more than in 1957.

+ From 1965-75, 31% of a sample of cities over 25,000 in population transferred functions to another jurisdiction, with larger, central cities being more likely to transfer. Counties received 56% of the functions transferred, followed by special districts with 19% and states with 14%. As of 1976, however, general authority for transfers was granted by only ten states, thus requiring many transfers to be achieved under laws applicable to single functions.

- Specifics on the extent of extraterritorial powers — the exercise of authority by cities outside their boundaries -- are not known; but it is likely that they are used less than intergovernmental service agreements or transfers of functions. In 1977, 35 states authorized at least some of their cities to regulate outside their boundaries. Yet, less than half of the states authorized extraterritorial planning, zoning and subdivision regulation — the powers that would have the most influence in dealing with fringe growth problems.

Annexation -- the most common structural modification -- is a useful method of expanding a municipality's servicing and financing jurisdiction; but, except for certain cities, mainly in the South and Southwest, it has not been a feasible device for achieving areawide provision of services that benefit from areawide administration and financing:

- From 1970 through 1977, over 48,000 annexations occurred, adding nearly 7,000 square miles and over 2.5 million people to cities of over 2,500 in population. But most annexations were small — the average land area was one-seventh of a square mile and the average population 53 people.

- In the 1970s, medium-sized cities annexed more frequently and were more likely to produce significant territorial expansion and population increases than cities of other sizes. While the most annexations occurred in the North Central region, annexation has had the greatest impact in the South and Southwest.

- The effect of annexation on central and suburban cities declined in the 1970s, when the average land area and population acquired per annexation was less than in the 1960s.

- Although annexation usually produces small, incremental changes in city boundaries and population acquired, those cities with significant annexations in land and population (such as Houston and Oklahoma City) have been able to achieve better control over problems normally associated with benefit and cost spillovers.

Structurally, many county governments have moved toward modernization, increasing their ability to assume and manage functions once thought to be within the sphere of cities only. While tremendous strides have been made, however, counties have not taken full advantage of their opportunities to reorganize. Moreover, they are limited fiscally by dependence on inflexible sources of revenue. Still the current county picture is vastly different from that of two decades ago.

+ Home rule counties perform a greater variety of urban functions than their nonhome rule counterparts, and are more likely to provide services countywide. Currently, 30 states have enacted some type of home rule authority — compared to 25 states in the early 1970s. Yet in many states there are many restrictions on full implementation. Only 18 states grant counties the authority to adopt a home rule charter; and currently, 75 counties out of 3,040 nationwide have adopted one.

+ Twenty-one states authorize optional forms of county government, although comparatively few counties have exercised the option. Still, the percentage of counties with the commission (plural executive) form of government has dropped from 85% in the early 1970s to about 75% in the late 1970s, indicating progress in this vital aspect of structural modernization.

+ In the last two decades, the number of counties with elected executives has increased from eight to 253. Similarly, the number of appointed county administrators has grown from 75 in 1960 to 513 in 1979. Thus, 25% of the counties now have some degree of integrated management.

+ Functionally, many counties have taken on new responsibilities. Furthermore, the tendency is to perform functions for the entire county. Metropolitan counties not unexpectedly were more active than rural counties in adding new services.

City-county consolidation, federations, and three tier arrangements are major governmental reorganizations which have shown some success in reducing duplicative services and inequities in financing services. Furthermore, in several cases they have reduced the fragmentation of local government and have provided a structural means for dealing with regional problems. Yet, none of these forms has been adopted very widely.

+ The most popular of these forms is city-county consolidation. Twenty-five now exist, with 17 having been formed since 1945. The number of referenda has increased in each decade, but the percentage of passage has declined so that the 1970s produced eight compared to seven in the 1960s (one of these was established by state legislative action). Moreover, half of the consolidations since 1968 have been in nonmetropolitan areas. Only one city of over 250,000 population has ever succeeded in consolidating with its surrounding county (Indianapolis) and that was through action of the state legislature.

+ The two-tier urban county form established in Florida's Dade County has never been adopted formally in any other area. Yet, in many counties, combining major structural reorganization with transferring functions from municipalities has produced systems leaning toward the two-tier approach.

+ The most dramatic development in areawide government in the 1970s was the 1979 establishment in the Portland, Oregon, area of the first elected regional government. The success of this new metropolitan services district, however, may be dependent on the establishment of a tax base adequate to give it the financial capability of providing additional areawide services.

Three general conclusions regarding the allocation and reallocation of functions affecting local units can be drawn from this examination of the procedural and structural and jurisdictional approaches: the reliance on procedural and other ad hoc functional adjustments has been continuing and heavy; major jurisdictional reorganizations have been rare; and changes in county government over the last ten to 20 years have been striking.

The procedural methods for assigning functions particularly intergovernmental agreements, functional transfers and state mandates — are used frequently because they achieve solutions to servicing problems without involving the difficult task of structural reorganization. Yet, while solving immediate servicing needs, these piecemeal, frequently haphazard, approaches fail to create a rational and governable service provision system. Procedural approaches often tend to produce further complexity and fragmentation of functional responsibility, reduce citizen accountability, and lessen the possibility of achieving an equitable distribution of resources.

Two of the structural/jurisdictional methods — special districts and annexation -- also are employed in an ad hoc rather than a systematic manner. Special districts — the most common unit of local government — are popular for reasons similar to those for intergovernmental agreements and functional transfers: they are an easy solution to pressing service needs. Often they are the only solution when cities and counties either cannot perform the function because of fiscal, functional, or areal constraints or are unwilling to assume the responsibility. Moreover, in metropolitan areas, they may be the only way to provide a multijurisdictional regional service.

Yet, special districts, most of which are unifunctional, further fragment the local government picture; and, when they fail to coordinate their activities with cities and counties, they tend to undermine the general-purpose local government within whose territory they operate.

Potentially, annexation could create areawide local governments encompassing the urbanized area surrounding cities. Because annexation does not threaten existing city governments as much as city-county consolidation or formation of a metropolitan government, it has greater political feasibility than they have. The thousands of annexations that take place every year not unexpectedly add little territory and few people, and only a few cities in the South and Southwest -- which are not subject to restrictive state laws -- have been able to annex sufficient surrounding urbanized areas to achieve a de facto areawide government. In other regions, annexation does extend city services to some urbanized areas; but because of its piecemeal nature and the scarcity of adjacent unincorporated territory in many of the older metropolitan areas, it has not solved major functional assignment problems.

While major governmental reorganizations have extended the geographic scope of services, reduced duplication, improved administrative capacity, and broadened the tax base, they are not a widely accepted method for realigning functions. The only genuine two-tier, federated government in the United States (Florida's Dade County) is tending toward centralization. City-county consolidations (occurring only 17 times since World War II) increasingly have been in medium-sized or small semi-rural counties. Local consolidations have never been a solution for the nation's large urban centers. Moreover, even the larger city-county consolidations, such as Jacksonville/Duval County, Nashville/Davidson County, and Indianapolis/Marion County, do not encompass the entire metropolitan population.

The structural reform in the 1970s having greatest potential for systemizing functional assignments was county reorganization. While the progress in modernizing counties -- structurally and functionally -- should not be overestimated, striking changes have occurred. As the percentage of counties with an elected executive, county manager, or administrator rose to more than 25%, over 50% of all Americans found themselves living in a reorganized county. Counties have greatly expanded their functional activities, performing many new services beyond those they were traditionally assigned as mere subunits of state government. Because of functional transfers from cities, state mandates, federally funded programs, and the demands for services by citizens in unincorporated, but urbanized, areas, they have taken on a variety of new functions and are more likely now to perform them countywide.

Intergovernmental aids and local functional assignment are connected because intergovernmental fiscal transfers sometimes are brought into play as a way of dealing with the problems created by a mismatch between service needs and fiscal resources -- particularly in older urban areas. If local communities were better able to adjust their areal reach and fiscal resources to their service demands, they would not need as much assistance from the state and federal governments. Lacking such flexibility -- because of either the absence of such authority from the state or political infeasibility -- local communities are forced to seek outside fiscal help or reduce expenditures. One way of reducing expenditures is to transfer functions or activities to the state or to some other substate unit and let it worry about financing and managing the function. As we have seen, transfer is one of the most common developments over the past decade on the local reorganizational front (reflected especially in the growth in number of special districts and the rise of county governments). Special districts frequently have been created because of limitations placed on general-purpose local units. They can be established without regard to constricting boundaries that inhibit municipalities from serving their logical service areas and increasing their tax base. Frequently they have special bonding, taxing, and/or user charges powers that are denied municipalities. In similar fashion, counties are often able to offer areal and fiscal resources beyond the limited reach of hemmed-in municipalities.

What this diagnosis suggests is that a brake can be applied on the constantly increasing local reliance on intergovernmental fiscal assistance if states increase local fiscal resources and make it easier for local units to reorganize and accommodate to larger area service needs. But in recent years, states have moved to restrict localities' use of the mainstay local property tax. An alternative to increasing the property tax authority is state authorization for greater local use of other fiscal resources, such as income and sales taxes and user charges. But in 1979, only 11 states authorized one or more types of localities to levy income taxes, only one more than in 1976. Twenty-six authorized local sales taxes in 1979, the the same number as three years earlier.

On the reorganization front, states would have to be more assertive in authorizing, facilitating, and encouraging local communities to pursue annexation, city-county consolidation, county-county consolidation, and other types of major structural change, such as two- or three-level federated units and multipurpose special districts. For their part, the leaders and residents of local areas would have to display the foresight and determination to take advantage of the reorganizational opportunities offered by the state and overcome the considerable political problems that almost invariably frustrate reorganizations threatening the distribution of political power at the local level. Considerable responsibility rests on the shoulders of the local citizenry and political leadership to take these kinds of steps toward both better allocation of functional responsibility and to arrest the seemingly relentless erosion of local discretionary authority.

Diminished Differentiation. Special attention should be given to the gradual blurring of differences among the general-purpose units -- particularly between the municipality and the county. This change is reflected in the halt, if not the actual reversal, of the municipality's historic dominance in the provision and financing of local services and in the rise of the urban county.

The constantly changing nature of local government forms represents, of course, the adaptation of institutions to changing conditions. The basic pattern of American local government traditionally consisted of municipalities (serving concentrations of population within well-defined territorial limits) and counties (basically providing state services at the local level in both urban and rural areas). Towns in New England were something of a combination of municipalities and counties elsewhere, in that they consisted of subdivisions of counties but also provided services needed in concentrated population areas. Townships in the midwestern states, on the other hand, were largely subdivisions of counties for the provision of rural services at the local level.

The basic dichotomy of form in most of the states was between the municipality, serving urban concentrations within specific limits and organized on the initiative of the resident population, and the county, a subdivision of the state covering essentially the entire state and set up mainly to carry out state functions at the local level, rather than to meet the specially articulated needs of the local populace. Under this dichotomy, municipal governments were the "dominant providers" of the overwhelming portion of direct services, when "dominant provider" is defined as the unit responsible for at least 55% of total state-local expenditures for the services.

A major trend in the past ten to 15 years has been slippage in the municipalities' leadership as dominant providers of various local services and the increasing tendency for such services to be performed by "more than one provider." As the counties and the special districts have picked up functional responsibilities, municipalities' dominant position has dropped off. Thus, in terms of functional responsibility, the trend has been toward homogenizing the different types of local units.

Considering its implications for functional assignment, questions arise about this tendency toward homogenization: Is it good or bad? Should it be encouraged or discouraged?

In support of this trend, it can be said that it represents a prime example of political pragmatism — considered one of the stellar virtues of American federalism. It reflects the capacity to use whatever institution is available to deal with problems that otherwise might not be managed because of institutional rigidities. It represents the primacy of function over form, placing ends and means in their proper order in a society and polity that put major emphasis on meeting the demands of the public.

In somewhat the same vein is the argument that historical origin is no reason for maintaining institutions when the original justification for their creation has disappeared or been displaced. Thus, if municipalities are unwilling or unable (usually the latter) to provide services to their own citizens or to those of adjacent areas, it is fatuous to contend that counties should not provide such services just because they were originally organized to provide nonurban services.

On the other side of the issue, some observers point to how increased reliance on special districts damages sound local government. The tendency to turn more and more to special districts, they contend, is particularly threatening to general-purpose units, both municipalities and counties, because it erodes their unique capacity for setting priorities in meeting multiple needs in each area and for coordinating the provision of services effectively and efficiently. Special districts also are usually less visible than general-purpose units, so that they tend to weaken accountability.

Some uneasiness with increased reliance on counties is based on a concern over their policymaking and administrative competence. Granted that they have made significant strides in recent years — particularly in urban areas, they still have a distance to go until as a class they are equal to municipalities as providers of urban services. Thus, it is pointed out that:

- While 21 states authorize optional forms of county government, not many counties have actually exercised the option;
- Seventy-five percent of the counties still operate under the widely discredited plural executive form of government; and
- Fiscally, counties generally are confined to an inflexible general revenue source — the property tax. In 1979, only three states authorized one or more of their counties to levy local income taxes, while 16 permitted county sales taxes.

It also is argued that giving counties the same powers as municipalities increases the possibility of competition among jurisdictions serving the same consumer, because counties ordinarily overlie municipalities. Overlap may be cited as a virtue when competition results in better service at reduced cost and widens service and fiscal options for the citizens. However, when it results in both jurisdictions providing the same service to the consumer, the results are likely to be adverse. Even before counties began providing more urban services, residents of municipalities often complained that they were paying more than once for a service: they paid all of the cost of the municipality's service and then they shared in the cost of the county's providing the same service to residents living outside the municipality.

As counties become more similar to municipalities, the possibilities for such duplication could well grow.

Another type of argument made against increasing homogenization is that it diminishes further the electorate's understanding of the local government scene. A generation ago, citizens had a fairly good idea of the different functions provided by the traditional county and municipality. As the two units grow closer together in functional scope, they have more difficulty in distinguishing roles and thus in identifying and holding appropriate officials or agencies accountable.

The blurring of differentiation also has consequences for state-local and federal-local relations. It becomes more difficult for state and federal officials to discriminate among local units and therefore to construct fiscal aid and regulatory measures that can be tailored to different types of local government. ACIR's examination of Congress' specification of those local governments eligible for grant programs indicated a lack of precision at the federal level, reflecting some uncertainty over differences among local units. This uncertainty would be aggravated by an increasing homogenization of local government types.

A final and more fundamental reason for a negative reaction to the trend toward homogenization of the functions of local government types is the concern that this trend represents the triumph of an "ad hocracy" approach over the effective allocation of local government functions. The ad hoc style places primary reliance on piecemeal changes — such as intergovernmental fiscal transfers, functional transfers, and interlocal service agreements -- rather than on the more difficult and more comprehensive structural approaches involving changes in individual jurisdictions' area and power — such as multipurpose and areawide service districts or city-county consolidations. Long-run objectives and the balancing of multiple goals tend to be deemphasized or disregarded in the preoccupation with meeting immediate needs.

The necessity for reexamining the allocation of local functional assignments is most frequently precipitated by conditions of fiscal stress in a locality. Inevitably in these circumstances, an ad hoc fiscal solution is considered first when community leaders ponder what adjustments should be made. From this need has emerged two principal approaches: Increasing reliance on intergovernmental aids and the transfer of certain municipal functions to the county or special districts. Undoubtedly the availability and short-run appeal of these alternatives have taken much of the steam out of attempts to accomplish fundamental structural reorganizations at the local level. Yet the growing dependence on intergovernmental fiscal transfers has eroded local discretionary authority.

The Record of State Regeneration

State institutions and processes have been transformed in the past 25 years. Revised, modern constitutions have replaced archaic, lengthy, detail-ridden documents in many instances. More representative and responsible legislatures have taken the place of generally malapportioned, unresponsive bodies in all states and many states have upgraded significantly legislative staffs, offices, sessions, and committee arrangements, as well as adopting smoother procedures for these bodies. As a result of significantly improved administrative practices and structural reorganization, courts now operate more efficiently in practically all states. More states have provided more funds for their courts in order to equalize court operations throughout their jurisdictions. Governors have been strengthened by longer terms, ability to succeed themselves, increased budgetary authority, better staffing, and a revitalized national organization that provides a better forum for expression of their views. All of the states have been engaged in administrative reorganization and many have completely restructured their executive branches to facilitate improved administrative management. Despite the exigencies of inflation and high unemployment, the states in the aggregate are fiscally sound. Moreover, some have reformed their tax systems to diversify and stabilize revenue sources. Personnel and budgetary practices have been modernized.

States always have exercised significant responsibilities for the design, empowering, financing, and supervision of their local governments and have provided the bulk of outside assistance these jurisdictions received. Today, states still perform all these functions, and such activities still constitute one of the states' principal roles. Yet, the emphasis in their activities has shifted to such an extent that their newer role as major planners, financers, and coordinators of intergovernmental programs now consumes a substantial portion of their time, energy, and resources.

The new prominence for intergovernmental activities results largely from fiscal developments involving the states -- in particular the burgeoning of both state and federal aid. While they have long served as bankers for their local units and have provided a downward channel for federal funds, the states' importance in these respects has grown dramatically in recent years. The states' financial assistance for their local units increased more than 72% in the five years between 1972 and 1977, and constituted more than 61% of local government revenue from their own sources by 1979. With this more generous assistance went additional state supervision, efforts to upgrade local capacity, and more stringent requirements in some instances.

The lion's share of federal aid (between 74-80% in any recent fiscal year) is distributed to the states. Much of it is passed through to local governments, placing the states in a pivotal middleman's role in the planning, supervision, and, sometimes, direction of large, expensive, intergovernmental programs financed on a shared basis. State responsibilities in managing federally-aided programs have come from direct federal placement of such responsibilities upon them, as well as from the necessity for undertaking certain activities in connection with passing through federal funds. With the increasing number and scope of federal block grants, the states are taking on greater responsibilities for managing and passing through federal funds in accordance with the states' own policies.

States' reactions to their new assignments and the accompanying requirements reflect the diversity common to them. Some have been more attuned to compliance than others. Moreover, the institutional adjustments they made when implementing federal programs have not been uniform. They have made different choices, thus signaling that they still perform their traditional role as mechanisms for public choice by their citizens.

At the same time that the states have shifted the emphasis in their roles, they have been upgrading their capacity to perform. But this coincidence does not necessarily mean that the states' assumption of an expanded intergovernmental management role produced the efforts to improve their capacity. While the increased intergovernmental burdens undoubtedly stimulated various improvements, numerous other factors came into play as well. The reapportionment activity beginning in the 1960s is often cited as a basic cause, although the assertion has yet to be tested empirically. Other possibilities include: (1) the spread of innovations across state lines; (2) state reaction to the stinging criticisms leveled at their shortcomings in handling urban problems; (3) a modification in mind set provoked by new mobile populaces accustomed to change; (4) citizen demands for modernization and better performance provoked by alterations in socio-economic developments within the states; and (5) the obvious need to update state institutions and practices.

In regard to their local units, state performance has been mixed.

+ Many states have unshackled local governments in terms of general powers and appear to be paying more attention to the economic problems of their urban areas. At the same time, they have increased their mandating on localities.

+ Fiscally, local government revenue raising authority has been broadened in the aggregate, and state aid has grown markedly. However, prospects for continued increases in state funding are dim, in most jurisidictions, as states face the financial squeeze caused by inflation, constitutional restrictions on taxing and spending, and Congress' denial of general revenue sharing funds, about 40 percent of which had been passed along to local governments.

+ Many states continue to be reluctant in modernizing and restructuring local governments, although some have acted.

For the most part, state efforts have been concentrated more on improving their own administrative practices than on improving the operations of their local governments. Even so, not all of the steps the states took on their own behalf during the past quarter century can be classed as moving forward. Some — such as taxing and spending limitations in some instances -- were in the opposite direction. On balance, however, most of the changes improved the capacity of the states to provide effective, efficient, responsible, and accountable government at the state level.

Despite the continuing need for improvements, then, the states have emerged as transformed entities, retooled and capable of undertaking an expanded role in the federal system at the same time that they discharge their traditional responsibilities. The results in terms of improved public policies have for the most part not been authoritatively analyzed, though notable individual state actions can be cited. As is true in many instances of institutional reform, a lag can be expected between the retooling and improvements in products. It can be reliably reported, nonetheless, that the states are alive and well and serving an expanded role in the federal system.

Clearly, the dramatic changes occurring throughout the federal system during the quarter of a century since the Kestnbaum Commission reported on its condition in the mid-1950s have had a pronounced impact on the roles of the states. Traditionally, states have been the repositories of the reserved powers under the Constitution and chief resisters to the centralization of governmental powers and functions. They have been powerful representatives of 50 sets of geographic interests in the country. Through the uncentralized political party system, they have played a strategic role in selecting national officials and in maintaining political balance in the federal system. In addition, they have been: (1) the foremost instruments of public choice in certain areas; (2) direct service providers in their own right; (3) prime regulators in guarding the public health, safety, welfare, good order, and convenience through the use of the police power; (4) architects and empowerers of local governments; (5) innovators in public policies: and (6) to some degree, middlemen in federal grant-in-aid programs. In the past two decades, there has been a major shift in emphasis in these roles. Moreover, given the complexity of the intergovernmental arrangements that have developed, conflict has arisen among them.

The issue that arises, then, is whether the expanding intergovernmental responsibilities of the states have become so preponderant that they constitute a new role. Moreover, has this become the primary responsibility of the states in the system today? If so, how can their functions and processes best be adapted to meet the responsibilities? If not, what other role or roles does state government have to perform that argue for equal resources and attention?

In support of the contention that the states' intergovernmental role has achieved primacy, one should note that, functionally, there is more sharing now among the levels of government than ever before and the states play the dominant middleman role in the process. This characteristic is evidenced by expenditure, own-source revenue, and employment data.

Financially, states are increasingly becoming the bankers of the intergovernmental system: they are the principal recipients and disbursers of federal grant moneys. Federal financial assistance to state governments, excluding the amount channeled through states to local governments, increased from $19.5 billion in 1971-72 to $33.6 billion in 1976-77 (the latest period for which data was availabe when the research was done). In addition, the states passed through $12.3 billion in federal funds in 1976-77, as compared to $7.3 billion in 1971-72. State funds transferred to local governments grew also, although not as rapidly as federal grants. States allocated $27.8 billion in aid to their local units in FY 1971-72, a figure which increased to $48.0 billion by 1976-77. These trends combine to suggest a new state role as coordinator and supervisor of chiefly intergovernmentally funded domestic programs.

As the number, cost, and scope of federal grants have grown, so have state management tasks connected with them. States receive the funds from the federal government, plan their use, distribute about 20% of these moneys to their local units, and monitor and report on the results. They often provide other assistance of a financial or technical nature to accompany them. Moreover, states allocate significant portions of their own funds to local governments, amounts that eclipse those offered by the federal government in some functions like public education. The state share of intergovernmental aid to local governments constituted almost two-thirds (62.5%) of such aid in 1977.

Meanwhile, their more traditional activities affecting their local units continue strong. Although changes have occurred in state-local relations — with states assisting more, regulating more, and funding more than ever before — the basic relationship remains the same. Other state activities prompt caution in perceiving the states' intergovernmental role to be their only — or perhaps even their primary — one. It could be argued that despite the magnitude of their intergovernmental responsibilities, states have other roles that may be more important.

Politically, the states still are the balance wheels of the federal system. Their ability to play this role is based largely on their political power in a system characterized by plural power bases. This pluralism results from the nation's still uncentralized political party system, state responsibilities in regard to enfranchising voters and conducting elections, the power states wield in the presidential nominating conventions, the attention given to Governors (individually or singly) when they speak out on public issues, and state potential for amending the Constitution.

Several recent developments have compromised their political strength, but states remain the repositories of much of the political power in the nation. A factor in maintaining this power is the revitalization of their political processes, thanks in an ironic way to the reapportionment decisions of the Supreme Court and the voting rights legislation of Congress. These processes now are more open, more competitive, and more participatory than ever before. And from them are formed 50 different representational systems, whose varying values, policy and program preferences, fiscal arrangements, and approaches to local governments suggest other than a managerial intergovernmental program role.

Long called the "laboratories of democracy," states today are making a reality of this textbook description, which had only limited application from the late 1920s to the early 1960s. New programs such as sunset legislation, zero-based budgeting, equal housing, and nofault insurance had their beginnings in the states. Pioneering actions in gun control, pregnancy benefits for working women, limited-access highways, education for handicapped children, auto pollution standards, and energy assistance for the poor are only a few instances of other innovative state action. There is no reason to believe that such resourcefulness will not continue, but again within 50 different laboratories.

These numerous "independent" actions suggest that the states have not scrapped the traditional role that stems from their being differentiated political and representational systems. If anything, some would argue that this role has been revitalized in the past decade-and-a-half, even as the role of planner, partial banker, and coordinator of big, largely intergovernmentally financed, programs emerged.

The Record of Areawide Regionalization

Areawide organizations are a frequently-created response to boundary limitations that arise when some public problems spill beyond the jurisdiction of any single government capable of acting alone to address the problem. Very often such problems are recognized long before a regional public body is established, and the earliest organizations to respond generally are unofficial. Gradually, as the problem becomes better defined and as the stakes in common intergovernmental solutions become clearer to affected governments, the informal organizations are transformed into, or supplemented by the creation of, official public bodies.

+ In metropolitan areas, the first substate regional organizations were private regional planning associations established in several major metropolitan areas in the early 1920s. After the Second World War, federal urban transportation funds began to encourage more areawide planning, and in 1954 comprehensive planning funds became available from the Department of Housing and Urban Development's predecessor agency in support of metropolitan planning commissions. Additional federal legislation enacted in 1965 and 1966 made federal funds available to support the "council of governments" type of regional planning in which local elected officials are the prime participants, and gave metropolitan planning organizations the responsibility to review a broad range of federally-aided physical development projects before federal administrative action. By 1970, all metropolitan areas had official regional planning and most were pursuing it through the council of governments type of organization.

+ In nonmetropolitan areas, the roots of interlocal regional planning go back to agriculturally-related organizations — such as soil conservation districts, farmer cooperatives and resource conservation and development committees — as well as to the local chambers of commerce. In the latter part of the 1960s and all during the 1970s, general-purpose regional councils were formed throughout the rural and small community portions of most states. These organizations have helped to (a) bring federal aid into their regions, (b) supply much needed administrative, professional, and technical expertise to the small, ill-equipped local governments there, (c) represent local needs to the state government, (d) deliver certain public services in some cases, and (e) prepare regional plans.

+ Substate district systems have been established statewide in 44 states, mostly since 1967. These systems are attempts by the states, with federal encouragement, to bring about some commonality of boundaries and organizations for the various types of regional planning and, in some cases, for the field operations of state agencies. By the late 1960s, federal aid programs supporting regional planning were proliferating multiple regional planning organizations in many metropolitan and nonmetropolitan areas alike — a condition that still exists. By 1977, almost two single-purpose regional planning organizations existed at the local level for every general-purpose regional council in the nation, and 12 states had even higher ratios. Neither federal nor state consolidationist policies have stemmed this development nationally.

+ Under the influence of (1) local initiatives for interlocal cooperation, (2) state enabling legislation, (3) federal aid and requirements for regional planning, (4) the substate districting systems, and (5) other forms of state encouragement, regional planning organizations at the local level now blanket virtually the entire nation, encompassing 99% of all counties. In 40 cases, these local regions cross state lines, creating interstate planning organizations.

Thus, the past two decades have seen the development of a nationwide network of substate regional organizations and a strong cadre of regional planners. Both are buttressed by a national interest group in Washington know as the National Association of Regional Councils. Yet several different regional organizations -- general and special-purpose -- exist side by side in the typical region, and the quality of their planning, their positive effects on the effective, efficient, and equitable expenditure of public funds in the regions, and the proper role of these organizations in relation to the state agencies and local governments all have been questioned. Numerous proposals have been made, both to simplify the almost-unmanageable federal aid system under which they work and to stabilize and improve the quality of their work programs. Up to 1982, little improvement took place along these lines except for some gradual refinements in the A-95 federal project review and comment process. The A-95 clearinghouse network got many of the affected parties talking to one another, but this process now is being changed under the terms of Executive Order 12372 (issued July 14, 1982). That very general order rescinds Circular A-95, calls for intergovernmental consultation procedures to be provided by each individual federal agency, and allows state project review processes to be substituted for federal ones.

Despite their problems, regional councils generally have established useful roles and services on which the other levels of government have come to depend. From discussion forums to interlocal agreements, from technical assistance to model codes, from areawide plans to federal aid allocations, from car-pool planning to bus operations, and from small area population projects to air quality monitoring, it is difficult to imagine how most regions could get along without their regional councils. Local governments learn to live side by side through these organizations, while the federal government translates many of its policies into local programs through them, and states receive local inputs to their policy and budgeting processes from them.

While substate regionalism is maturing in many constructive ways, it needs active participation by all levels of government if it is to outgrow its present adolescence. "Adult" regional councils -- fully able to stand on their own feet. secure their own revenues, and control their own work programs -- are rare. Yet regional problems are among the most intergovernmental and difficult faced by domestic government.

ACIR Strategies for State and Local Reform in the 1980s

On the basis of these findings, the Commission has concluded that the roles of the states and their local governments have shown both continuity and change over the past two decades, providing the basis of both hope and disappointment for those valuing strong state and local governments as essential elements of a viable American federal system.

The Commission also has concluded that federal, state, and local governments have placed too heavy an emphasis on intergovernmental fiscal transfers as the basic means of meeting the many service-provision challenges confronting subnational governments, especially those at the local level. The Commission obviously is mindful of the fiscal dilemmas facing various state and local governments. Its reports dealing with various aspects of state and local finances provide ample evidence of this awareness and concern. At the same time, the Commission is convinced that this primary reliance on aid programs reveals a fundamental unawareness of the inextricable linkages among governmental finances, functions, structure, and jurisdictional area. It also highlights a concomitant tendency to avoid, for obvious political reasons, the pivotal structural and areal issues, which after all are primary determinants of fiscal and program capacity.

The Commission has recommended a highly ambitious approach to local governmental restructuring and reorganization (see the attached Appendix). This package of reform proposals is geared to strengthening America's localities and to developing a more balanced and genuinely cooperative aid system.

The Commission is convinced that heavy reliance on intergovernmental aids, in preference to the various other means of dealing with the problem of unbalanced needs and resources, is a growing threat to the continued viability of local government as a vigorous partner in the federal system.

It believes, therefore, that in considering strategies for overcoming the resources-needs mismatch faced by local governments, concerned citizens and officials at all levels must recognize the many interrelated causes of the problem and weigh all the available means -- not just increased intergovernmental grants — of dealing with them. In a time of mounting public resistance to increased taxes and spreading support for limits on state and local expenditures, attention must return to structural and jurisdictional changes.

At the local level, citizens and officials must face up to the need for hard political decisions and sustained effort on fundamental restructuring of local governments. State governments must reexamine the whole body of laws, regulations, and practices that authorize and/or mandate the fiscal, functional, organizational, and areal characteristics of their local governments. State aids must be examined to assure that their conditions impose minimum obstacles to localities making the most effective structural and areal readjustments. The federal government must exercise greater sensitivity to the structural and areal implications of the eligibility and performance requirements in grants to local governments. Its policies should support, rather than contradict, structural and areal characteristics that foster effective, efficient, equitable, and accountable local government.

To sum up, the structure, service-delivery assignments, and areal reach of local governments in metropolitan as well as nonmetroplitan areas are fundamental conditioners of the local fisc. The prime reliance on intergovernmental fiscal transfers over the past decade-and-a-half to meet the fiscal pressures on localities was sensible and certainly least disruptive of the status quo. Yet the specter of localities assuming the role of administrative adjuncts of higher level governments now looms — thanks to the truism in our political system that grants are never unconditional, but over time are ever more conditional. America's localities, then, are caught between the rock of intergovernmental fiscal reliance and the hard place of no longer avoiding basic restructuring alternatives. The Commission, therefore, believes that all levels must recognize the necessity of confronting the hard place, while not crashing on the rock.

Conclusion

Appropriate reform of state and local governmental structures and intergovernmental processes is not a simple or easy task. ACIR hopes that its many reports, recommendations, and model bills will help in this effort, and invites the Joint Committee to call upon it for any additional assistance that the Commission may be able to provide.

Appendix

ADOPTED RCOMMENDATIONS OF THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS CONCERNING THE MODERNIZATION OF STATE AND LOCAL GOVERNMENTS

Over the years, the Commission has made many specific recommendations that fit into this broad strategy. These recommendations were reaffirmed and augmented in late 1980 and early 1981. ACIR's program of suggested state legislation subsequently has been updated to reflect the new emphasis.

The specific recommendations fall conveniently under the four headings of (1) sorting out the functions and levels of government, (2) local government reorganization, (3) areawide organizations, and (4) state government capacity. These recommendations are summarized below.

Sorting Out the Functions and Levels of Government. The Commission recommends that:

1. States enact legislation establishing an ongoing assignment of functions policy and process which, at a minimum, authorizes the state ACIR or similar agency to:

   (a) formulate general criteria for assigning and reassigning public services, taking into account the desirability of maximizing economic efficiency, fiscal equity, political accountability, and administrative effectiveness;

   (b) develop specific functional classification standards based on the criteria for determining the state, areawide or local nature of a function or components thereof;

   (c) enlist the assistance of affected local government and state agency representatives in developing the classification standards;

(d) prepare an intergovernmental impact statement concerning any state- or locally-developed assignment or reassignment proposal or federal action or proposal affecting state-local service delivery systems (such a statement should evaluate these proposals according to the criteria and functional classifications); and

(e) recommend appropriate state constitutional or legislative or, where appropriate, local referendum action for the assignment or reassignment of functions according to the classification standards.

2. State legislatures establish a sunset procedure whereby every state program is reviewed periodically to determine whether its functions and subfunctions should be continued, terminated, transferred to political subdivisions, or expanded by assuming parallel functions currently being performed by political subdivisions.

3. The federal government amend the 1968 Intergovernmental Cooperation Act to provide that the units assigned functions according to the recommended state assignment policy and process be recognized as the preferred recipients of federal assistance, and modify OMB Circular A-95 to require federal agencies to take account of intergovernmental impact statements in disbursing federal aid.

4. The Office of Management and Budget develop and periodically update, in consultation with the Bureau of the Census and representatives of state and local governments, a classification of the 50 states based on the functional, fiscal, and legal similarities and differences among their various types of local government; that the Congress in designing eligibility provisions of grant legislation give serious consideration to the utility of this classification; and that the President by executive order require departments and agencies administering grants whose distribution is determined wholly or partly by administrative decision to give serious consideration to such classification in determining which units of local government are intended to be recipients of such grants in such states.

Local Government Reorganization. The Commission recommends that the states:

1. adopt a constitutional amendment granting to selected units of local government all functional powers not expressly reserved or preempted by the state legislature;

2. establish local government boundary commission(s) at the state and/or local level(s): to regulate municipal incorporations, nonviable units of general local government, special districts, and interlocal service agreements; to oversee the implementation of statutory standards of an assignment of functions policy and process; to recommend modification of substate district and county boundaries; to monitor and facilitate municipal annexations; to develop "spheres of influence" or staged expansion limits that define ultimate boundaries of municipal annexations and ares of potential municipal incorporation; and to report annually on efforts to strengthen the pattern of local government.

3. Improve the structural and functional capabilities of the two major general-purpose local governments — cities and counties — by:

   (a) enacting legislation to strengthen counties structurally including (1) authorizing, at the least, optional forms of county government; (2) requiring any predominantly metropolitan county to have an elected or appointed executive officer; (3) placing county officers on a statutory rather than a constitutional basis; (4) empowering contiguous counties to consolidate identical or comparable county offices or functions; and (5) authorizing contiguous counties to execute a multicounty consolidation by simple concurrent majorities.

   (b) enacting legislation to strengthen counties functionally by: (1) authorizing counties to perform urban functions when (a) a countywide or less-than-countywide special district performs the service, (b) a municipality requests the county to perform the service, or (c) the public expresses through a referendum a preference for county performance of the service, and for requiring performance standards developed by affected municipalities and the county for functions performed in unincorporated areas; (2) requiring counties having unincorporated territory to develop planning, zoning, and subdivision regulations for such areas, or requiring municipalities contiguous to such areas to perform similar functions with the proviso that if neither the county nor the city performs these functions within the time period specified by the state, a state agency would assume the function;

   (c) enacting legislation to strengthen the cities structurally by authorizing optional forms of municipal government, including the "strong mayor" form and the "council-manager" form, and authorizing the appointment of all city officers other than the mayor and council members;

(d) strengthening the ability of cities to extend urban services by giving them (as well as the residents in unincorporated areas) the authority to initiate annexations and eliminating the absolute veto power of residents in unincorporated areas when the annexation meets statutory standards; and

(e) clarifying the functional responsibilities of counties and cities by establishing: (1) the county as the basic service provider in unincorporated areas, and (2) requiring counties undertaking functions already provided by constituent municipalities to either enhance the quality of the service or make proportionate payments to their municipalities.

4. Enact legislation leading to major structural reorganization:

(a) by ordering the dissolution or consolidation of local units of government within metropolitan areas by a legislatively-empowered state agency or local government boundary commission.

(b) by permitting a range of choices for establishing governmental units capable of providing areawide services including:

1) multicounty consolidation and, where geographic scope is adequate, the assignment to it of areawide multicounty jurisdictional organization functions;

2) city-county consolidation with all areawide and local functions assigned to it and special districts either merged with or subordinated to it;

3) the modernized county with all structural, functional, and fiscal powers noted earlier, with such powers established by charter;

4) a substate multijurisdictional general-purpose government with a directly elected council; and

5) a regional service corporation subsuming existing and proposed areawide special districts, having responsibility for areawide functions, and with popular election of its policy body.

The states should require that any of the above options for establishing areawide units be approved in a referendum by simple concurrent majorities in the central city or cities and in the outlying area in metropolitan areas, by a simple concurrent majority in each affected county in nonmetropolitan areas, or by a simple areawide majority. Further, the states should stipulate that such referenda could be initiated by a single or concurrent resolution of one or more units of general local government comprising a certain percentage of the region's population, by petition of a certain percentage of eligible voters in the region, or by direct action of the state legislature.

5. Facilitate procedures for assigning or reassigning functions by:

(a) establishing procedures for functional transfers between and among municipalities, counties, multicounty regional bodies, and authoritative regional councils, including at a minimum: (1) repeal of provisions requiring voter approval, (2) authorization of revocation when performance falls below initially-agreed-to standards, and (3) empowering a jointly-agreed-upon agency to determine whether performance standards have been met;

(b) establishing state technical and fiscal assistance to counties and municipalities for management studies of proposed transfers and state aid for the extraordinary initial costs incurred; and

(c) establishing procedures for local governments to perform services jointly or cooperatively, including powers of interlocal contracting with appropriate federal and state incentives through their grant programs for cooperative endeavors by small units of government, but enjoining the use of interlocal contracting in metropolitan areas when it promotes factionalization of the tax base without overriding compensating advantages.

6. Provide for a broadly representative, permanent state ACIR to study and report on:

(a) the current pattern and viability of local governmental structure and substate regional organizations; their powers, functionally and fiscally; the existing and desirable relationships between and among local governments and substate regional organizations;

(b) the existing, necessary, and desirable allocation of state-local fiscal resources;

(c) the existing, necessary and desirable state role in local governments and substate regional systems;

(d) the problems of interstate areas; and

(e) the constitutional and statutory changes required to implement recommendations.

7. Through a local government boundary commission, other state agency, or the state legislature, establish or supplement standards for local government viability (a) by requiring any local government, general or special purpose, in the urbanized portion of a standard metropolitan statistical area (SMSA), to have the equivalent of at least one full-time employee, or, (b) by requiring general-purpose units to perform at least four functions, or only two functions, provided that each of the two constitutes at least 10% of the jurisdiction's current expenditure budget. If either of these standards is not met, the state, after offering adequate opportunity for a hearing for the affected local government(s), shall consider dissolving the local government and providing for the transfer to and performance of its functions by (an) appropriate unit(s) of general local government.

8. Authorize the consolidation of two or more municipalities, towns or townships, when initiated by a resolution of the governing bodies of the cities, towns, or townships affected or by petition of the citizens therein and approved in a referendum at the next primary or general election by simple concurrent majorities in the governmental jurisdictions involved.

9. Increase and clarify local discretionary authority by adoption of (a) constitutional amendment(s):

(a) granting to general-purpose local governments all powers -- structural, functional, and fiscal — not expressly reserved to or preempted by the state legislature;

(b) containing a self-executing provision;

(c) stipulating that the grant of local discretionary authority be interpreted liberally by the courts;

(d) limiting the use of special legislation by requiring the state legislature to examine carefully requests by local governments for the enactment of special laws and to reject requests if the concerned local governments possess sufficient discretionary authority to achieve the objective(s) of the special laws by enactment of local by-laws, laws, or ordinances;

(e) requiring the state legislature to establish a "code of restriction" specifying those powers expressly reserved to or preempted by the state legislature; and

(f) requiring the state legislature to adopt and maintain a local government code consolidating all statutes applicable to local government.

The Commission further recommends that the states:

10. Require units of local government located in substate regions, every ten years or when three or more large special districts have emerged in a region, to establish a representative areawide commission to study the current structural, functional, and fiscal relationships of local governments and substate regional organizations. The commission shall report on possible reorganizations, including multicounty consolidation, a modernized county, city-county consolidation, city-city consolidation, an elected regional multifunctional service district, or a strengthened regional council. If the commission recommends reform(s), the state legislature, on petition of an appropriate number of the citizens of the area involved, shall require a referendum to be held on any of the reform proposal(s), subject to approval by simple concurrent majorities in the governmental jurisdictions involved, and enact legislation, when necessary, to authorize implementation of such proposals as are approved by the voters.

11. Amend their constitutions, where necessary, and enact legislation authorizing and providing incentives for the modernization of county government, including (a) an elected or appointed chief executive, reduction of the number of elected administrative officials, an executive budget process, and development of planning, zoning, and subdivision regulations for their unincorporated territories; (b) county performance of municipal-type functions, with the taxing power of the county for such functions restricted to the area served, when (1) a countywide or less than countywide special district performs the service, (2) the public expresses through a referendum a preference for county performance of the service, or (3) there is a finding by the county governing body and the governing body of the concerned municipality, or the governing bodies of a majority of the municipalities concerned, that such performance is in the interest of citizen convenience, fiscal equity to taxpayers, and more effective delivery of the service; and (c) adequate fiscal resources and diversification of the county revenue base.

Areawide Organizations. The Commission recommends that states, where necessary, enact a comprehensive statewide policy to provide a framework for substate regional planning, programming, coordination, and districting undertakings, which should include at a minimum:

1. establishment of a formal procedure for delineating the boundaries of substate regions;
2. the required use of officially-established substate regional boundaries by all state agencies when implementation of state- and/or federally-aided programs requires the geographic division of the state;
3. a specific process whereby the Governor designates a single strengthened regional council in each region with the legal status of an agency of local governments;
4. a membership formula for the regional councils, requiring prescribed minimum representation for the state and general-purpose local units, and urging that state legislators meet with regional councils and, where feasible, become members and involve themselves in council activities;

5. a prescribed voting formula for the reformed councils reflecting the one person/one vote principle;

6. publication of regional policies or plans and implementation programs by the regional councils;

7. reliance by all state agencies on such councils for substate districting activities;

8. inputs by regional councils into state budgeting and planning processes;

9. state designation of regional councils as substate clearinghouse agencies;

10. power of such councils to review and approve all proposed major capital facility projects of state agencies;

11. review and comment by such councils on locally funded major capital facility projects proposed by general-purpose local units;

12. exercise of a policy-controlling role by regional councils with respect to the operations of multijurisdictional special districts;

13. provision of services by the councils, as requested by member local units;

14. authorization of these revitalized councils to assume regionwide operating responsibility, subject to specified approval by member local units;

15. state financial aid to the regional councils; and

16. gubernatorial authority to disapprove regional council actions under certain circumstances.

Regarding the federal role, the Commission recommends that a comprehensive federal substate regional policy be adopted to provide a framework for federal assistance programs having substate districting provisions. At a minimum, this policy should include:

1. a requirement that all grants encouraging or mandating areawide planning, programming, coordination and/or districting rely on officially state-designated substate regional councils for implementation and/or areawide policy development purposes;

2. encouragement of states to adopt a proper substate districting system, geared to state and local as well as federal needs, and assurance that federal programs will align their boundaries to conform with substate regions and rely on their officially-designated regional councils;

3. enactment of legislation that consolidates all federal assistance planning requirements with a view to focusing clearly on (1) substate districts as the primary areal concept, (2) the state-designated regional councils as the basic policy-developing and/or implementing institutions, and (3) the linkage of comprehensive and functional planning;

4. enactment, with bonus provisions for state buy-in, of a consolidated grant program of general planning, programming, and coordinative management assistance to officially-designated regional councils;

5. amendment of the 1968 Intergovernmental Cooperation Act to give regional councils the power to review and approve or disapprove grant applications from multijurisdictional special districts or authorities;

6. amendment of the 1968 Intergovernmental Cooperation Act to give regional councils the power (1) to review grant applications from units of general government to resolve inconsistencies between such applications and official regional policies or plans, and (2) to review grant applications of substate agencies for major capital facilities not having multiregional impact;

7. amendment of the 1968 Intergovernmental Cooperation Act to require that any major capital facilities projects having a pronounced areawide or intergovernmental effect and involving federal block grant funds must be reviewed and inconsistencies between such projects and official regional policies or plans resolved by the official regional council; and

8. reimbursement of state and areawide clearinghouse costs.

In terms of required joint federal-state-local efforts in interstate metropolitan areas, the Commission called in 1980 for:

1. federal, state, and affected local units to establish a single regional council in each interstate metropolitan area;

2. states to consider interstate metropolitan areas in delineating boundaries of substate districts;

3. OMB Circular A-95 to be changed to require conformance of all federally aided programs to boundaries for interstate metropolitan areas set up by joint federal-state-local action; and the President to mandate a policy of relying on the interstate regional council for federally aided interstate metropolitan undertakings;

4. states and the federal government to amend interstate compacts that have an interstate metropolitan impact to empower the interstate regional council to review and approve all capital facility programs and projects of interstate compact bodies;

5. Congress to amend the 1968 Intergovernmental Cooperation Act to empower interstate regional councils to approve grant applications for major capital facilities assistance from multijurisdictional special districts and general-purpose local units in the area;

6. federal and state governments to enact federal-multistate compacts which define the legal status of regional councils operating in interstate metropolitan areas, spell out their powers, and detail appropriate local-state-federal representation; and

7. federal and state governments to provide adequately for fiscal support of interstate metropolitan regional councils through stipulating such support in the compacts or earmarking a portion of the federal-state block grant for planning, programming, and coordinative management assistance.

Turning to local governmental initiatives, the Commission recommends that cities and counties adopt official policies that:

1. support creation of and participation in officially designated regional councils;
2. provide financial aid to such councils;
3. encourage designation of the regional councils as the policy boards for interlocal cooperative or contracting efforts and the use of regional council staff to perform services incident thereto;
4. recognize the regional councils' policies and plans to guide their own local activities; and
5. require regional council representatives on the boards of any multi-jurisdictional special district to seek designation of their official regional council as the policy board of any such district.

State Government Capacity. The Commission calls for:

1. state constitutional amendments to permit the Governor to succeed himself or herself;
2. state constitutional amendments to reduce greatly the number of separately elected state officials;
3. state constitutional amendments or legislation that substantially reduce the use of boards and commissions for the administration of "line agency" functions;
4. state constitutional and statutory action to provide an effective executive budget;
5. state development of a strong planning capability in the executive branch of their governments and conversion of the state A-95 type review and comment process into an integral component of state planning and budgeting;

6. state publication of proposed state rules and regulations, the maintenance of current codifications of all state rules and regulations presently in effect, and periodic reassessment thereof;

7. state constitutional amendments to authorize the Governor to reorganize the administrative structure of state government subject to veto by either house of the legislature;

8. state constitutional or other appropriate action to remove restrictions on the length and frequency of legislative sessions; and

9. provision of year-round professional staffing of major legislative committees.

The Commission also recommends that Governors and legislatures reassess the role and contemporary relevance of state regulatory and licensing boards and commissions and eliminate those not needed; and, in the case of those that are still needed, take steps toward enhancing the impartiality of their quasi-judicial functions and the efficiency and effectiveness of their administrative activities including eliminating any unjustified duplicative state-local licensing and regulations.

The Commission recommends, further, that the federal government curb its intrusion into state organization and procedures by amending Section 204 of the Intergovernmental Cooperation Act of 1968 to eliminate any federal assistance condition that requires a single state or local government department, agency, board, or commission, or a single bureau, division, or other organizational unit to serve as the administrative focal point of an aided program, along with any provisions that dictate a specific headquarters-field administrative relationship within a state or substate governmental department or agency.